LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **SB 208** SLS 21RS 377

Bill Text Version: **ORIGINAL**

Opp. Chamb. Action:

Proposed Amd.: **w/ PROP SEN COMM AMD**

Sub. Bill For.:

Date: April 30, 2021 2:01 PM
Author: FOIL

Dept./Agy.: Economic Development / Insurance

Subject: Investment Louisiana Business Development Fund
Analyst: Greg Albrecht

TAX/TAXATION OR -$30,000,000 GF RV See Note

Establishes the Invest Louisiana Small Business Development Fund and authorizes a premium tax credit for small business growth investments made by qualified investors. (1/1/22)

Proposed law (with proposed amendment SCASB208 1345) provides $30 million of premium tax credits (100% of $30 million of capital from insurance companies allowed into the program). Total capital allowed into the program includes another $30 million of matching funds from funding participants). Applications for capital to access the program must be accepted within the first six months of 2022. Associated tax credits can be claimed in 25% increments over four years beginning in the third year after credit issuance. The bill provides for the use of the capital allowed into the program for qualified investments in Louisiana businesses.

Effective January 1, 2022.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	($7,500,000)	($7,500,000)	**($15,000,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**($7,500,000)**	**($7,500,000)**	**($15,000,000)**

EXPENDITURE EXPLANATION

The bill places administration of this program within the Department of Revenue (LDR), although the tax credits are to be claimed against insurance premium taxes administered and collected by the Department of Insurance. Administrative costs between the two departments are unclear.

REVENUE EXPLANATION

The bill structures the claiming of $30 million of tax credits issued within the first half of calendar year 2022 (FY22). These credits can be claimed against premium tax liabilities in 25% increments ($7.5M per increment) over annual periods beginning three years after the issuance of the credits (FY25, FY26, FY27, and FY28).

Credits can be taken against premium tax liabilities, except those attributable to medicaid-enrolled managed health care organizations. If liabilities of contributing insurance companies are insufficient to exhaust available credits in any particular period, unused credit amounts can be carried forward for use for an unlimited number of years. Premium tax liabilities against which the bill's annual credit amounts can be claimed, other than those excluded by the bill, are forecast to exceed $500 million per year. It is likely that the full amount of credit available for claim each year will be realized against the state fisc.

The fiscal consequences of programs such as proposed by this bill have often been discussed in the context of static versus dynamic scoring. The revenue loss estimate above is static, and does not incorporate the effects of the program on the economy. Such programs can have desirable re-distributive impacts in the economy, but are not likely to change the overall size of the economy. Net macroeconomic dynamic effects are small, at best, due to fundamental realities rarely considered in most impact analyses. But for the program, a large portion of the targeted economic activity is likely to occur anyway. This program provides an alternative source of capital to participating businesses but, as evidenced by historically low interest rates, there is substantial capital available in the economy overall. In addition, a large portion of the sending of most industries quickly flows out of state via imports of goods & services. Regardless of these considerations, the state operates within a balanced budget constraint, requiring offsetting budget reductions or compensating tax increases to fund tax credits. This constraint results in dampening impacts in the economy that work to largely or even more than completely offset any stimulative effect attributable to such programs. Thus, static results tend to implicitly capture full dynamic effects. In the particular case of this bill's program, some new economic activity may occur prior to the offsetting balanced budget consequences in the economy, but ultimately, offsetting reductions in the economy occur when credits are being claimed and the governmental budget is being constrained.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☐ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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