

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 563** HLS 13RS 1077

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

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Dept./Agy.: Economic Development/Revenue	Analyst: Deborah Vivien
Subject: Adjustments to the R&D Tax Credit	

TAX CREDITS EN NO IMPACT GF RV See Note Page 1 of 1
Changes eligibility and provides for administrative changes for the Research and Development Tax Credit

Current law provides a refundable income and franchise tax credit for a percentage of eligible Research & Development (R&D) expenditures, the rate of which is dependent upon the number of employees in the firm, split between those with greater than 50 and less than 50. Documentation requirements are specified in the law. The credit expires Dec 31, 2019. Proposed law retains current law but does not allow custom manufacturing/fabricating and professional services (except those with an issued or pending patent) as defined by LED to apply for the program, unless invited by LED to participate. The bill also adjusts certain components of the law such as ensuring that those firms with exactly 50 employees also qualify under the large business statute. The bill allows small business applicants who do not claim the federal R&D credit to qualify with a CPA report as established by rule. State documentation requirements are more closely aligned with those required for the federal R&D credit. The state will audit 10% of applications each year and may request additional information or recapture credits. Effective for tax years beginning on and after January 1, 2013.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. Applicants that claim the federal R&D credit are able to provide certifiable documentation for the state program because both programs are similar. However, the state's R&D program faces an administrative burden when analyzing applications from small businesses that do not take the federal credit. The extensive review required has served to slow the approval process by as much as a year. This bill will require a small business to submit a report from a CPA stating that the firm had no financial benefit from seeking the federal credit. Disallowing custom manufacturing/fabricating and professional services, unless specifically invited by LED, will further reduce the administrative burden on the state as the extensive review will no longer be required for most of these types of firms. This measure should expedite certain administrative duties, though the program will continue to require a commitment to administrative processes.

REVENUE EXPLANATION

There is no anticipated direct material effect on governmental revenues as a result of this measure. Expediting the application process for small businesses that do not claim the federal R&D credit may serve to speed the rate at which R&D credits are issued, but should not change the amount of credits issued. According to LED, disallowing the application of custom manufacturing/fabricating and professional services firms to the R&D program (unless specifically invited by LED or with patents issued or pending relating to the research expenditures) is a codification of current practice, though a review was required before the firm could be denied access to the program. This component of the bill will eliminate the need for an upfront review for those types of firms without a patent issued or pending relating to the research expenditures and is anticipated to be mostly an administrative change without a fiscal impact.

<u>Senate</u>	<u>Dual Referral Rules</u>	<u>House</u>
<input type="checkbox"/> 13.5.1 >= \$100,000 Annual Fiscal Cost {S&H}		<input type="checkbox"/> 6.8(F) >= \$500,000 Annual Fiscal Cost {S}
<input type="checkbox"/> 13.5.2 >= \$500,000 Annual Tax or Fee Change {S&H}		<input type="checkbox"/> 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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