

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 950** HLS 16RS 1078
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.:
 Sub. Bill For.:

| | |
|---|-------------------------------|
| Date: May 1, 2016 3:23 PM | Author: FOIL |
| Dept./Agy.: Economic Development / Revenue | Analyst: Greg Albrecht |
| Subject: Convert R&D Credit Into Rebate | |

TAX/TAX REBATES OR -\$6,500,000 GF RV See Note Page 1 of 1
 Establishes a rebate for certain research and development activities

Present law (Act 133 of 2015) provides nonrefundable tax credits with five-year carry-forwards against income and franchise tax liabilities that reimburse up to 40% of eligible R&D expenditures, depending upon the employment size of the participating firm (50 or more employees versus less than 50) and/or if the firm has received a federal small business innovation research grant. Prior to Act 133, these credits were refundable (no tax liability required by the firm in order to receive the full benefit of the credits).

Proposed law provides rebate payments of 30% of eligible R&D expenses or 30% of the federal grants for the 50-or-less employee firms and/or the recipients of the federal research grants. This effectively makes them refundable credits again, insuring that these firms receive the full benefits of the program regardless of their tax liabilities, but at a lower benefit rate of 30% rather than 40%. Total program rebates allowed to be issued are limited to \$10 million per year; \$5 million for each of the two program components. Recipients of these rebate payments are not allowed to receive the R&D tax credits still administered by LED. Rebate payments made to the participating firms are not public record and shall not be disclosed.

Effective for all tax years beginning on and after January 1, 2016.

| EXPENDITURES | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 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 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 5 -YEAR TOTAL |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| State Gen. Fd. | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$32,500,000) |
| 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 | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | \$0 |
| Annual Total | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$6,500,000) | (\$32,500,000) |

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. LED currently administers the program with varying benefit rates and eligibility bases. This bill simply changes program parameters for two of the three program components but does not likely alter the the level of participation, especially with regard to the program as it was constructed prior to Act 133 of 2015, less than one year ago. The Revenue Department typically finds it easier to administer rebate payments than tax credits.

REVENUE EXPLANATION

When Act 133 of 2015 was passed, the changes to the R&D tax credit program were expected to result in some \$21 million of reduced annual credit cost to the state fisc reflecting the fact that, in the aggregate, these firms, received almost all of the program's benefit through refund payments over and above their tax liabilities. This bill will potentially restore up to about one-half of those program costs through the \$10 million per year rebate limitation of the bill. However, effective cost restoration will likely be somewhat less than this. Based on historical use of the program, LED estimates that the \$5 million annual cap on rebates available to the 50-or-less employee firms would be readily met (\$51 million per year of qualified expenditures receiving the bill's 30% rebate equals \$15.3 million per year > than \$5 million per year limit). The \$5 million annual cap on rebates available to the federal grant recipient firms would likely not be met (\$5 million per year of federal grant awards receiving the bill's 30% rebate equals \$1.5 million per year < than \$5 million per year limit). Total program rebate costs are estimated at \$6.5 million per year.

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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