



LEGISLATIVE FISCAL OFFICE

Fiscal Note

Fiscal Note On: HB 726 HLS 13RS 2064
Bill Text Version: ENGROSSED
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.: HB 455

Date: May 9, 2013 5:24 PM Author: LEGER
Dept./Agy.: Revenue Analyst: Greg Albrecht
Subject: New Markets Tax Credit Program

TAX CREDITS EG -\$49,500,000 GF RV See Note Page 1 of 1
Establishes the New Markets Jobs Tax Credit

Current law variations of this program have provided state income and franchise tax credits for investments in Community Development Entities (CDEs) organized to participate in the federal New Markets Tax Credit Program. Tax credits are percentages of the investment in a CDE that are used to make subsequent investments in qualified businesses in the state. Credits are nonrefundable but are transferable. The program was materially modified in 2007, and subsequent versions have specified the total amount of capital allowed to participate and the total amount of tax credit that can be generated. In the last two versions of the program, a total of \$100 million of tax credits have been issued.

Proposed law provides \$49.5 million of transferable premium tax credit (45% of \$110 million of capital allowed into the program). Capital/credit allocations are made in two units of \$55 million of capital, generating two units of tax credit, \$24.75 million each. Capital allocations are made on 11/1/2013 and 11/1/2014. Associated tax credits can be claimed evenly over three years, beginning three years after each capital allocation. First credit claims can occur in FY17 and last through FY20.

Table with 7 columns: EXPENDITURES, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

Table with 7 columns: REVENUES, 2013-14, 2014-15, 2015-16, 2016-17, 2017-18, 5-YEAR TOTAL. Rows include State Gen. Fd., Agy. Self-Gen., Ded./Other, Federal Funds, Local Funds, and Annual Total.

EXPENDITURE EXPLANATION

In the past the Department of Revenue has devoted a full-time position to administer this program. It seems unlikely that the changes made by this bill would require additional resources. However, with this bill there will effectively be four programs being administered simultaneously, with four different sets of program parameters, at least with respect to the program's tax credits. The bill retains the Revenue Department as the program administrator but provides premium tax credits. Thus, some coordination with the Insurance Department will be required and may add to administrative costs.

REVENUE EXPLANATION

The bill structures the issuance of \$49.5 million of tax credit in two allocations: \$24.75 million on November 1, 2013, and \$24.75 million on November 1, 2014, and provides that each of these two issues can first be claimed against tax liabilities three years after the credit issuance. Thus, premium tax liabilities for 2016, filed in FY17, are first affected. The amount of tax credit that can be taken each year is also structured to be 1/3 of each issuance. Thus, FY17 is exposed to \$8.25 million of revenue loss (first 1/3 of first \$24.75 million of credit issued). Then FY18 is exposed to \$16.5 million of revenue loss (second 1/3 of first \$24.75 million plus first 1/3 of second \$24.75 million). Both FY18 and FY19 lose \$16.5 million and, finally, FY20 loses the last \$8.25 million. Total state revenue losses are \$49.5 million, spread over four years, with a three-year delay at the outset of the program.

Annual realization of the credits is limited to the premium tax liability of the holder of the credits. However, a ten year carry-forward period is allowed for unused credits, and the credits are transferable to other taxpayers. Thus, it is likely that annual realizations will approximate the annual exposures in the table and discussion above.

Total tax credits granted under the New Markets Tax Credit program have been nearly \$130 million. Under the pre-2007 program parameters, \$29.7 million of credits have been granted over a 9 year period. In two supplements to the program since then, two additional \$50 million allocations of tax credits were oversubscribed. It seems likely that the additional \$49.5 million of tax credits made available by this bill will be fully subscribed, as well. From FY08 to FY13 (through February 2013) new market tax credits realized have totaled \$115.580 million. With this bill a total of \$179.2 million of tax credits will be issued through the state's program.

- Senate DualReferralRules House
13.5.1 >= \$100,000 Annual Fiscal Cost {S&H} 6.8(F) >= \$500,000 Annual Fiscal Cost {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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