F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 02/09/12
SPONSOR Doyle **LAST UPDATED** 02/13/12 **HB** 322/aHBIC

SHORT TITLE High Impact Investment Tax Credit **SB**

ANALYST Smith

REVENUE (dollars in thousands)

Estimated Revenue				Recurring or Nonrecurring	Fund Affected
FY13	FY 14	FY15	FY16		
($1,250.0)	($2,500.0)	($3,750.0)	($5,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Response From
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of HBIC Amendment

Among certain technical fixes, the House Business and Industry amendment to House Bill 322 also adds additional reporting requirements for the credit. It also mandates that the Economic Development Department institute rulemaking for the credit

Synopsis of Original Bill

House Bill 322 creates the “high impact investment tax credit”. The credit is in the amount of $5,000 for each net new qualified job created, and for each high impact economic development project the period of time a taxpayer may receive the credit shall not exceed 20 years. The credit is not refundable or transferable but amounts in excess of the taxpayer’s corporate income or franchise tax liability may be deducted against s gross receipts tax, compensating tax, and withholding.

A taxpayer claiming this credit may not claim the high-wage jobs tax credit, the technology jobs tax credit, the rural job tax credit or the film production tax credit.

Effective Date: January 1, 2013

FISCAL IMPLICATIONS

The proposed new credit is similar in magnitude to existing credits like the High-Wage Jobs Tax Credit (HWJTC), and the taxpayer could not claim both. Thus, some taxpayers might prefer to use the existing incentives rather than the new incentive. For example, the HWJTC is equal to 10 percent of wages plus benefits, an amount that would exceed $5,000 for many new jobs. The proposed credit could be more beneficial than the HWJTC for employers making large investments because it can be claimed for longer time periods. Thus, there might be a limited fiscal impact in the near term, but greater impacts in the long term. Estimates in the table assume the new credit increases gradually over time. Note that the costs are totally borne by the General Fund – between Corporate Income Tax and modified combined reporting tax liability. The estimates shown do not reflect any new investment in the state's economy that might be stimulated by the proposed credit because such impacts are difficult to predict. However, it is likely that the proposed credit could stimulate some new investment.

TECHNICAL ISSUES

These credits are customarily capped. The sponsor might want to consider an amendment.

SIGNIFICANT ISSUES

An employer would be eligible to claim this credit for minimum wage jobs.

OTHER SUBSTANTIVE ISSUES

Does the bill meet the Legislative Finance Committee tax policy principles?

1. **Adequacy**: Revenue should be adequate to fund needed government services.
2. **Efficiency**: Tax base should be as broad as possible and avoid excess reliance on one tax.
3. **Equity**: Different taxpayers should be treated fairly.
4. **Simplicity**: Collection should be simple and easily understood.
5. **Accountability**: Preferences should be easy to monitor and evaluate

This bill may be counter to the LFC tax policy principle of adequacy. According to the LFC staff General Fund Recurring Appropriation Outlook for FY14 and FY15, December 2011 forecasted revenues will be insufficient to cover growing recurring appropriations

The sponsor might want to consider a "sunset clause" so that the efficacy of this amendment can be evaluated.

SS/svb:amm