



**Colorado
Legislative
Council
Staff**

HB17-1090

**REVISED
FISCAL NOTE**

(replaces fiscal note dated February 3, 2017)

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 17-0112
Prime Sponsor(s): Rep. Kraft-Tharp; Wilson
Sen. Gardner; Kefalas

Date: May 4, 2017
Bill Status: Senate Finance
Fiscal Analyst: Louis Pino (303-866-3556)

BILL TOPIC: ADVANCED INDUSTRY INVESTMENT TAX CREDIT EXTENSION

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019
State Revenue	<u>(\$262,500)</u>	<u>(\$900,000)</u>
General Fund	(\$262,500)	(\$900,000)
State Expenditures	<u>\$25,167</u>	<u>\$48,234</u>
General Fund	\$23,062	\$44,406
Centrally Appropriated Costs	\$2,105	\$3,828
TABOR Impact	(\$262,500)	(\$900,000)
FTE Position Change	0.3 FTE	0.5 FTE
Appropriation Required: \$23,062 - Office of Economic Development (FY 2017-18).		
Future Year Impacts: Estimated state revenue decrease through FY 2023-24 and expenditures through FY 2022-23.		

Summary of Legislation

House Bill 17-1090 extends the Advanced Industry Investment Income Tax Credit Program through tax years 2018 to 2022. The bill authorizes the Office of Economic Development and International Trade in the Governor's Office (OEDIT) to issue \$750,000 worth of state income tax credits in tax year 2018 and \$1.5 million in each year from 2019 to 2022 to qualified investors.

Under current law, in addition to other requirements, a business must have less than \$5 million in annual revenue and be actively operating and generating revenue for less than five years to qualify for an investment. House Bill 17-1090 allows a business to meet only one of the these criteria.

On November 1, 2022, the bill requires the OEDIT to submit a report summarizing all the tax credits issued since January 1, 2018.

Background

HB14-1012 created the Advanced Industry Investment Income Tax Credit Program. The program provides state income tax credits to investors that invest in advanced industry businesses. The investor must be an individual, S Corporation, partnership LLC, or other business entity. C Corporations are not eligible for the tax credit.

The tax credit is equal to 25 percent of the investment, or 30 percent if the investment is to a business located in a rural or economically distressed area. The maximum credit amount per tax year is \$50,000 for each investment in a qualified business. Taxpayers may claim multiple credits if they invest in more than one qualified business.

The OEDIT was authorized to issue \$375,000 in tax credits for tax year 2014, and \$750,000 each year for tax years 2015, 2016, and 2017. The credits are approved on a first-come, first-served basis. The credit is non-refundable but may be carried forward for five years.

In order to qualify for the credit, an investor must invest a minimum of \$10,000 in a business that qualifies as a Colorado advanced industry. The following meet the definition of an advanced industry:

- advanced manufacturing;
- bioscience;
- electronics;
- aerospace;
- energy and natural resources;
- infrastructure engineering; and
- information technology industries.

A business must either have its headquarters located in Colorado or have at least 50 percent of its employees based in Colorado. The company must have received less than \$10 million dollars from third party investors, and annual revenues cannot be more than \$5 million. Also, the company must have been actively operating and generating revenue for less than five years. Finally, in order to qualify for the credit, the investor may not own more than 30 percent of the business before making the investment or more than 50 percent after making the investment. The OEDIT is responsible for verifying the eligibility of the business and authorizing the tax credits.

State Revenue

General Fund revenue will be reduced by \$262,500 in FY 2017-18, \$900,000 in FY 2018-19, and \$1.4 million in FY 2019-20. FY 2017-18 is a half-year impact since the additional credits allowed under this bill will be available beginning in calendar year 2018. The total amount of income tax credits authorized by this bill is \$6.75 million. As shown in Table 1, the revenue impact will be phased in over the next seven fiscal years.

Assumptions. The fiscal note assumes the OEDIT will authorize the full \$750,000 in tax year 2018 and \$1.5 million in each year from 2019 to 2022. Data from the OEDIT shows that the office issued the full allowable amount of tax credits in tax years 2014, 2015, and 2016. The office anticipates to authorize the maximum allowable amount (\$750,000) in tax year 2017 as well. In addition, it is assumed that the type of businesses allowed to receive these investments and the broader definition of a qualified businesses will result in a higher number of investor applicants.

The fiscal note assumes 70 percent of the tax credit will be claimed in the first income tax year with the remainder used in the second year. Data from the Department of Revenue shows that, on average, 70 percent of the tax credit was claimed by the taxpayer in the first income tax year the credit was authorized. Carry-forward data on when the taxpayer claimed the balance of the credit is not available.

Table 1. Phase-in Revenue Impact of Advanced Industry Investment Tax Credit Extension	
Fiscal Year	General Fund Revenue Impact
FY 2017-18	(\$262,500)
FY 2018-19	(\$900,000)
FY 2019-20	(\$1,387,500)
FY 2020-21	(\$1,500,000)
FY 2021-22	(\$1,500,000)
FY 2022-23	(\$975,000)
FY 2023-24	(\$225,000)
Total	(\$6.75 Million)

TABOR Impact

This bill reduces state revenue from the General Fund, which will reduce the amount of money required to be refunded under TABOR for FY 2017-18 and FY 2018-19. TABOR refunds are paid out of the General Fund. TABOR refund obligations are not expected for FY 2016-17. Since the bill reduces both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will reduce money available for the General Fund budget in the future during years when the state does not collect money above the TABOR limit. TABOR impacts have not been estimated beyond FY 2018-19.

State Expenditures

This bill will increase state General Fund expenditures by \$25,167 in FY 2017-18 and \$48,234 in FY 2018-19 and future years for which the credit is available, as shown in Table 1.

Office of Economic Development. This bill requires 0.3 FTE Program Manager to administer the income tax credit in FY 2017-18 and 0.5 FTE in FY 2018-19. FY 2017-18 is a half-year impact since the additional credits allowed under this bill will be available beginning in calendar year 2018. The Program Manager will be responsible for verifying eligibility, monitoring, tracking and reporting on the program. Total expenditures are shown in Table 2.

Table 2. Expenditures Under HB17-1090		
Cost Components	FY 2017-18	FY 2018-19
Personal Services	\$23,062	\$41,931
FTE	0.3	0.5
Operating Expenses and Capital Outlay Costs		\$2,475
Centrally Appropriated Costs*	\$2,105	\$3,828
TOTAL	\$25,167	\$48,234

* Centrally appropriated costs are not included in the bill's appropriation.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3

Table 3. Centrally Appropriated Costs Under HB17-1090		
Cost Components	FY 2017-18	FY 2018-19
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$39	\$71
Supplemental Employee Retirement Payments	\$2,066	\$3,757
TOTAL	\$2,105	\$3,828

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2017-18, the bill requires a General Fund appropriation of \$23,062 to the Office of Economic Development and International Trade in the Governor's Office.

State and Local Government Contacts

Information Technology OEDIT Revenue