

Fiscal Estimate Narratives

DOR 2/28/2011

LRB Number	11-1094/2	Introduction Number	AB-0025	Estimate Type	Original
Description Increasing the credit amount and allowing the transfer of the angel investment tax credit					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, an individual may claim an income tax credit equal to 25% of the individual's angel investment in a qualified new business venture, as certified by the Department of Commerce (Commerce). Under the bill, the credit would be equal to 40% of the individual's investment if the qualified new business venture has received no more than \$1 million in investments, including the individual's investment, for which Angel Investment Credits had been claimed, and if the investment is made after the bill's effective date.

Under the bill, an individual who is eligible to receive an Angel Investment Credit may transfer the credit to another taxpayer if the person notifies Commerce and the Department of Revenue of the transfer and submits the transfer documents with the notification. No person may transfer an Angel Investment Credit more than once in a 12-month period and Commerce may charge the person a fee for the transfer equal to 1% of the credit amount transferred.

Fiscal Estimate

Under current law, it is estimated that the Department of Commerce will certify \$6.5 million in Angel Investment Credits in calendar years 2011, 2012, and 2013. This relates to credit-eligible investments of \$26 million (\$6.5 million/25%, the current credit rate). Assuming that the transfer provisions of the bill provide an incentive for additional investments that result in an increase of 10%, there would be an estimated \$28.6 million in eligible investments in calendar years 2011, 2012 and 2013 (\$26 million x 1.1).

Based on information from the Department of Commerce, approximately 69% of investments made to date under the Angel Investment Tax Credit have been made in businesses that had received less than \$1 million in credit-eligible investments. Assuming the same pattern, an estimated \$19.6 million of the \$28.6 million in total investments would be eligible for the higher 40% credit under the bill (\$28.6 million x 69%), resulting in total credit claims under the bill of an estimated \$10.1 million annually (\$19.6 million x 40% plus \$9.0 million x 25%). Therefore, the bill would result in additional credit claims relative to current law of an estimated \$3.6 million annually (\$10.1 million - \$6.5 million).

Based on an analysis of tax year 2009 individual income tax returns that claimed the Angel Investment Credit, approximately 69% of the angel credit that is claimed in a year is used to offset taxes, with the remainder being carried forward to offset taxes in future years. Based on this, the bill would result in reduction in individual income tax revenue of an estimated \$620,000 in FY 2011, \$2.5 million in FY 2012, and \$2.5 million in FY 2013.

The fiscal effect could be higher (lower) to the extent that Commerce certifies more (fewer) credits for investments in businesses with less than \$1 million in credit-eligible investments. In addition, the fiscal effect could be higher (lower) to the extent that more (fewer) investors apply for credits as a result of the incentive provided by the transfer provision.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2011 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description Increasing the credit amount and allowing the transfer of the angel investment tax credit			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		\$
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev		Decreased Rev
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>		<u>Local</u>
NET CHANGE IN COSTS	\$		\$
NET CHANGE IN REVENUE	\$See Text		\$
Agency/Prepared By		Authorized Signature	Date
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