

Colorado Legislative Council Staff Fiscal Note

STATE
FISCAL IMPACT

Drafting Number: LLS 11-0272
Prime Sponsor(s): Rep. Kefalas
 Sen. Newell

Date: February 1, 2011
Bill Status: House Finance
Fiscal Analyst: Jason Schrock (303-866-4720)

TITLE: CONCERNING MODIFICATIONS TO THE COLORADO INNOVATION INVESTMENT TAX CREDIT.

Fiscal Impact Summary	FY 2011-12	FY 2012-13	FY 2013-14
State Revenue General Fund* Cash Funds Colorado Innovation Investment Tax Credit Cash Fund	(\$100,000)	(\$100,000)	See State Revenue Section
State Transfers or Diversions Transfer from the Colorado Innovation Investment Tax Credit Cash Fund to the General Fund	See State Transfers Section		
State Expenditures Cash Funds Colorado Innovation Investment Tax Credit Cash Fund		\$35,398	Potential Increase
FTE Position Change		0.5 FTE	Potential Increase
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2011-2012: 0.5 FTE and \$35,398 Cash Funds			
Local Government Impact: None			

**See the State Revenue section for more information regarding the revenue impact of this bill.*

Summary of Legislation

This bill affects the Colorado Innovation Investment Tax Credit (CIITC) program, which was created by House Bill 09-1105. It allows tax credits to be claimed for investments made after tax year 2010 until all the existing funds transferred from the CIITC program to the General Fund for the credits are exhausted. The CIITC program is administered by the Colorado Office of Economic Development (OED).

The bill also allows the CIITC program to authorize additional credits for qualifying investments in small businesses contingent on the receipt of funds from public or private sources in addition to the original money provided for the program. These funds will cover the revenue impact

of the credits and costs of administering the program. If additional funding is received, the office is required to provide notice on its web site of the amount of the additional tax credits that are available.

The bill also makes the following changes to the CIITC program:

- eliminates the requirement that a small business has at least two nonadministrative, full-time equivalent employees who are Colorado residents in order to receive investments that qualify for the credit;
- clarifies that a qualifying business has to be *actively* operating for less than five years;
- extends the deadline for submitting an application for a tax credit by 60 days;
- clarifies that the limit on the tax credit is one per qualified business, allowing investors to receive credits for investments in more than one business; and
- extends the deadline for OED to provide the Department of Revenue an electronic report with information on the tax credits it authorized by three months from January 30th after the year in which the office authorized credits to April 30th.

Background. The CIITC was available to investors for qualifying investments of at least \$25,000 made during tax year 2010 in small Colorado businesses less than five years old. Qualifying businesses had to be involved in the research and development or manufacturing of new technologies, products, or processes. The credit equaled 15 percent of the investment but could not exceed \$20,000.

The total amount of credits authorized by the program for tax year 2010 was capped at \$750,000. The revenue impact from the tax credits was covered by \$750,000 in the Colorado Innovation Investment Tax Credit (CIITC) Cash Fund that was transferred to the General Fund. The CIITC program was funded by money credited to the CIITC Cash Fund from a portion of the state Economic Development Commission's funds for economic incentives. This source of funds has historically been appropriated annually to the Economic Development Commission from the General Fund. In addition to backfilling the revenue impact to the General Fund from the tax credits, the money in the CIITC Cash Fund is used to cover the costs of administering the credit program. The CIITC Cash Fund received \$832,055 (\$82,055 to administer the program and \$750,000 for credits) in FY 2009-10 from the Economic Development Commission.

However, not all of the maximum \$750,000 in credits were allocated for tax year 2010. OED expects that it will authorize about \$550,000 for credits after all applications for 2010 have been approved. This leaves about \$200,000 of the money that was provided for the program that cannot be used for tax credits for investments beyond 2010 under current law.

This bill allows tax credits to be authorized for investments in tax years beyond 2010 using the remaining money allocated to cover the revenue impact of the credits. OED expects to use most, if not all, of the remaining money to authorize credits for qualifying investments made in 2011.

State Revenue

This bill will reduce General Fund revenue by \$200,000, which will be accrued half (\$100,000) to FY 2010-11 and half (\$100,000) to FY 2011-12. It is assumed that the remaining \$200,000 available for tax credits will be allocated for qualifying investments in small businesses in tax year 2011. However, it is important to note that the estimated \$200,000 for tax credits that cannot be used for the CIITC program under current law has already been credited to the General Fund from the CIITC Cash Fund. Thus, the General Fund has additional revenue because the CIITC program did not allocate all of the tax credits it could authorize. Without this bill, the \$200,000 will be used for General Fund expenditures or to help fund the statutory reserve. Thus, this bill will reduce General Fund revenue compared with current law.

The bill allows for OED to receive additional funding from public or private gifts, grants, and donations to cover the revenue loss to the state of the tax credit and the costs of administering the credit. The amount of any additional amount of revenue that will be received is unknown.

Potential other fiscal impacts to the state. Because the degree to which the bill will directly create new jobs is unknown, the fiscal impact stated above does not incorporate increased state revenue from potential increased economic activity resulting from the bill. To the extent that this tax credit is the sole determining reason that new jobs are created, sales and income tax revenue from that activity would serve to partially offset the estimated loss of state revenue.

This bill could also have other impacts on state revenue. Most notably, the money invested in small businesses as a result of this bill may have been used for something else in the economy. However, the economic and revenue effects from other uses of the money is unknown.

State Transfers

The bill requires the state treasurer to transfer any additional amount of funding received from public and/or private sources for the CIITC program from the CIITC Cash Fund to the General Fund to backfill the revenue impact of any credits that are authorized.

State Expenditures

Governor's Office of Economic Development: \$35,398 and 0.5 FTE in FY 2011-12. Because this bill makes tax credits available for investments in tax year 2011 and beyond, staff resources are needed to coordinate with small businesses, investors, and the Department of Revenue. Staff will also need to evaluate applications, issue tax credit certificates, and track the applications for the credit to administer the CIITC program.

OED already has spending authority in FY 2010-11 for the CIITC program. Thus, it is assumed that the administration of the program for FY 2010-11 can be covered within existing resources. However, OED will incur costs of \$35,398 and 0.5 FTE in FY 2011-12 to continue to administer the program. This is assuming the bill is enacted in April and that all the remaining

money for credits are authorized for the 2011 tax year. Because fewer than the maximum amount of credits were allocated for tax year 2010, OED incurred less costs to administer the program in FY 2010-11 than originally anticipated. The savings in the CIITC Cash Fund from the less-than-expected FY 2010-11 costs will be used to cover the administrative costs in FY 2011-12.

The costs needed to implement the bill are summarized in Table 1.

Table 1. Expenditures for the Governor's Office of Economic Development Under HB11-1045		
Cost Components	FY 2010-11	FY 2011-12
Personal Services	\$0	\$34,923
FTE		0.5
Operating Expenses and Capital Outlay	\$0	\$475
TOTAL	\$0	\$35,398

If OED receives additional funding for the CIITC program, it will incur additional costs to administer the program. The fiscal year in which these expenditures would occur depends on when additional funding is received. The administrative costs are required to be funded from the additional funding received for the program.

Expenditures Not Included

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 summarized in Table 2.

Table 2. Expenditures Not Included Under HB11-1045*		
Cost Components	FY 2010-11	FY 2011-12
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$3,550
Supplemental Employee Retirement Payments	\$0	\$1,580
TOTAL	\$0	\$5,130

*More information is available at: <http://colorado.gov/fiscalnotes>

State Appropriations

This fiscal note implies that no additional appropriations are needed for FY 2010-11 to the Governor's Office of Economic Development

For FY 2011-12, the Governor's Office of Economic Development will require an appropriation from the Colorado Innovation Investment Tax Credit Cash Fund of 0.5 FTE and \$35,398.

Departments Contacted

Governor's Office of Economic Development	Revenue
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