

January 13, 2021

The Honorable Sean Tarwater, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 151D-S
Topeka, Kansas 66612

Dear Representative Tarwater:

SUBJECT: Fiscal Note for HB 2045 by Representative Owens

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2045 is respectfully submitted to your committee.

Under current law, the Angel Investor Tax Credit offers investors that make qualified cash investments in qualified Kansas businesses a 50.0 percent state income tax credit and the total amount of these tax credits are capped at \$6.0 million for each tax year through tax year 2021. HB 2045 would extend the sunset for this tax credit from tax year 2021 to tax year 2026, and would increase the amounts of tax credits that would be allowed as follows:

<u>Tax Year</u>	<u>Maximum Tax Credit Amount</u>
2022	\$6,000,000
2023	6,500,000
2024	7,000,000
2025	7,500,000
2026	8,000,000

The balance of any unissued tax credits would be carried over for issuance in future tax years through tax year 2026. The bill would increase the amount of tax credits that could be claimed on a qualified Kansas business from \$50,000 to \$100,000, and would increase the total amount of tax credits that any one investor would be allowed to claim in a tax year from \$250,000 to \$350,000. The bill would allow the Department of Commerce discretion in issuing tax credits that would allow the tax credit amount to be less than 50.0 percent. The bill removes some of the restrictions related to what qualifies as qualified securities or cash investments. The bill would allow any taxpayer without current tax liability to transfer the tax credit. Previously, the

transferability of this credit was limited to taxpayers that did not have Kansas tax liability in the current and past three tax years.

The bill would allow a qualified business that is not a bioscience business to leave the state after five years and not be required to repay the financial assistance to the Department of Revenue. Under current law, the claw back provision will apply if the qualified business leaves the state within ten years of receiving financial assistance.

Estimated State Fiscal Effect				
	FY 2021 SGF	FY 2021 All Funds	FY 2022 SGF	FY 2022 All Funds
Revenue	--	--	(\$1,900,000)	(\$1,900,000)
Expenditure	--	--	\$6,445	\$6,445
FTE Pos.	--	--	--	--

The Department of Revenue estimates that HB 2045 would decrease State General Fund revenue by \$1.9 million in FY 2022. The fiscal effect to state revenues during subsequent years would be as follows:

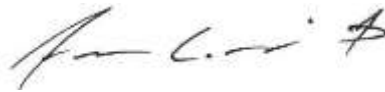
	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
State General Fund	(\$6,000,000)	(\$6,500,000)	(\$7,000,000)	(\$7,500,000)

To formulate these estimates, the Department of Revenue reviewed data on the Angel Investor Tax Credit Program from tax year 2019. The Department indicates that the amount of Angel Investor Tax Credits that can be claimed is capped at \$6.0 million per tax year; however, only \$4.1 million in tax credits were claimed by 499 taxpayers in tax year 2019. Tax year 2019 is not an anomaly as taxpayers also claimed less than the maximum allowed tax credits in previous tax years. Removing some of the restrictions related to what qualifies as qualified securities or cash investments and allowing more taxpayers the ability to transfer the tax credit would likely allow the maximum amount of tax credits to be claimed in each tax year. For tax year 2021 or FY 2022, the Department estimates that the full \$6.0 million in tax credits would be claimed, which is an increase of \$1.9 million from the \$4.1 million in tax credits that would likely be claimed under current law.

The Department of Revenue indicates that the bill would require \$6,445 from the State General Fund in FY 2022 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department’s programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department’s current budget may be required.

The Department of Commerce indicates that it is currently responsible for administering the Angel Investor Tax Credit Program. The Governor's budget includes continuing funding for this program in FY 2021 to review applications from qualified investors and qualified businesses. The Department indicates that the administrative costs associated with extending the sunset date and other changes for Angel Investor Tax Credit Program would be accomplished within existing staff levels and resources. Any fiscal effect associated with HB 2045 is not reflected in *The FY 2022 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam Proffitt", followed by a stylized flourish or symbol.

Adam Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
Sherry Rentfro, Department of Commerce