

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2016 REGULAR SESSION**

MEASURE

2016 BR NUMBER **0423**

HOUSE BILL NUMBER **142**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE AN ACT relating to tax credits promoting research and development at Kentucky public universities.

SPONSOR Representative Richards

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: **Finance and Administration Cabinet – Department of Revenue**

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2015-2016	2016-2017	2017-2018	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		Sunset of existing credit: \$500,000 Allowance of new credit: (\$3 million)	Sunset of existing credit: \$500,000 Allowance of new credit: (\$3 million)	(\$3 million) through FY 2019-2020
EXPENDITURES		\$100,000	Minimal	Minimal
NET EFFECT		(\$2.6 million)	(\$2.5 million)	(\$3 million) through FY 2019-2020

() indicates a decrease/negative

MEASURE'S PURPOSE: HB 142 establishes a new income tax credit for certain research expenses paid or incurred by a taxpayer to a Kentucky public university, for the stated purpose of increasing the amount of research and development (R&D) activity undertaken by the universities in partnership with, and funded by, the private sector, in order to further the establishment of knowledge-based companies, creation of new jobs, and the enhancement of the R&D capabilities and prestige of the universities.

PROVISIONS/MECHANICS: The bill amends KRS 141.395 to sunset the existing tax credit allowed for the construction of research facilities, and to establish the new credit as a replacement therefor. The total amount of credit available each year is limited to \$3 million, and the credit is only available for a 4-year period of time, through taxable years beginning before January 1, 2020. The Department of Revenue, and each of the public universities, are required to

submit annual reports to the Legislative Research Commission relating to the utilization of the credit and the R&D activities undertaken at the universities, which will better enable the impact of the credit to be evaluated. KRS 141.0205 is amended to provide for the ordering of the credit, and to make technical corrections.

FISCAL EXPLANATION: HB 142 will have a negative fiscal impact on the general fund. Based on the level of private sector funded R&D activities currently undertaken at the universities, which amounts to tens of millions of dollars each year, staff estimates that the full amount of the new tax credit available will likely be awarded each year, which is \$3 million.

The bill also sunsets the credit currently allowed for expenses incurred to construct a research facility. According to the most recent *Tax Expenditure Analysis*, the Office of State Budget Director estimates that approximately \$500,000 in revenues are forgone each fiscal year as a result of this existing credit. In this biennium, the revenue impact of the sunset is positive \$1 million, as a result of the expected level of tax expenditure no longer occurring.

The net revenue impact of HB 142 in this biennium is therefore estimated to be \$2.5 million, with \$3 million in new credits being awarded each year and no further amounts being allowed under the existing credit provision. Beyond the biennium, the estimated impact will continue to be negative \$3 million annually as the full amount of new credits available are awarded, throughout the period in which the credit is allowed.

As with the creation of any new income tax credit, the Department of Revenue will incur administrative expenses to implement the credit including computer programming costs, creation of new forms, etc. These costs are estimated to equal up to \$100,000, which would have to be absorbed into the agency's existing budget and could be therefore be challenging. Additional ongoing administrative expenses relating to reviewing and approving credit applications, and also in compiling the annual report, will also be incurred. These ongoing expenses are expected to be minimal, and are of a type common to many of the tax credit programs generally.

Each of the state's 8 public universities will also be required to submit annual reports relating to contracted R&D activities undertaken at each institution, and the impacts thereof. The data required in these reports are of a type that are already commonly featured in various public reports issued by the universities, and therefore staff estimates the expenses to be incurred by universities as a result of this bill to be minimal.

DATA SOURCE(S): OSBD 2016-2018 Tax Expenditure Analysis; UK and UofL research income reports; LRC staff

PREPARER: Eric Kennedy NOTE NUMBER: 122 REVIEW: JRS DATE: 3/7/2016