

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1396 - SB 1238

March 10, 2011

SUMMARY OF BILL: Authorizes Hall Income Tax (HIT) credits for angel investors who make cash investments in the qualified securities of qualified Tennessee small businesses. Establishes qualifying criteria for angel investors and qualified Tennessee small businesses. For investments between \$10,000 and \$100,000, the HIT credit shall be 35 percent of the angel investor's cash investment. For investments greater than \$100,000, the HIT credit shall be 50 percent of the angel investor's cash investment. Limits the value of tax credits authorized to any angel investor to \$250,000 per year. Authorizes tax credits to be used in subsequent years, up to five years, if the total tax credits authorized to an angel investor exceed the investor's HIT liability. Limits the aggregate amount of HIT credits to \$10,000,000 per year for FY11-12, FY12-13, and FY13-14, and to \$5,000,000 in each fiscal year thereafter. Prohibits the issuance of HIT credit certifications for any investments made on or after July 1, 2015. Requires the Department of Economic and Community Development (ECD) and the Department of Revenue (DOR) to promulgate rules and regulations. Requires ECD and the Comptroller of the Treasury to each prepare a report concerning the program's effectiveness in promoting growth of Tennessee small businesses to the Chairs of the Finance, Ways and Means Committees of the Senate and House of Representatives no later than January 1, 2014.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$6,250,000/FY11-12
\$6,250,000/FY12-13
\$6,250,000/FY13-14
\$3,125,000/FY14-15
\$3,125,000/FY15-16

Increase State Expenditures - \$319,200/Each Year FY11-12 through FY15-16

Decrease Local Revenue - \$3,750,000/FY11-12
\$3,750,000/FY12-13
\$3,750,000/FY13-14
\$1,875,000/FY14-15
\$1,875,000/FY15-16

Assumptions:

- ECD indicates that there are approximately 71,622 potential angel investors statewide.

- Of this number, ECD estimates that approximately 3,216 will submit applications, and from this number approximately 1,432 will be considered active angel investors.
- According to ECD, the Department will require five additional positions to administer the provisions of this bill. The recurring increase in state expenditures for these positions will be \$241,800 (\$177,200 salaries, \$64,600 benefits).
- Based on information provided by ECD, there will be a recurring increase in state expenditures of \$77,400 for operating costs of the program (travel, printing, communications, supplies and materials, etc.).
- The total recurring increase in state expenditures will be \$319,200 (\$241,800 + \$77,400). It is assumed these expenditures will not be needed in fiscal years subsequent to FY15-16 as a result of the provision that prohibits the issuance of HIT credit certifications for any investments made on or after July 1, 2015.
- The revenue impact for this bill is dependent upon several unknown factors including, but not limited to, the number of qualified angel investors, the number of qualified Tennessee small businesses, the extent of cash investments made by angel investors, HIT liabilities of qualified angel investors, and the tax years in which angel investors utilize authorized tax credits.
- Due to the extent of unknown factors, determining a precise revenue impact for this bill is difficult. However, it is reasonably estimated that the decrease in HIT revenue will be \$10,000,000 for each FY11-12, FY12-13, and FY13-14, and \$5,000,000 for each FY14-15 and FY15-16. These estimates are supported by and based on information provided by DOR.
- Pursuant to Tenn. Code Ann. § 67-2-119, the state retains 62.5 percent of HIT revenue; the remaining 37.5 percent is apportioned to local governments.
- The decrease in state revenue will be \$6,250,000 (\$10,000,000 x 62.5%) in each FY11-12, FY12-13, and FY13-14; the decrease in state revenue will be \$3,125,000 (\$5,000,000 x 62.5%) in FY14-15 and FY15-16.
- The decrease in local government revenue will be \$3,750,000 (\$10,000,000 x 37.5%) in each FY11-12, FY12-13, and FY13-14; the decrease in local government revenue will be \$1,875,000 (\$5,000,000 x 37.5%) in FY14-15 and FY15-16.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc