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FISCAL IMPACT STATEMENT

LS 6939
BILL NUMBER: SB 405

DATE PREPARED: Feb 18, 2000
BILL AMENDED: Feb 17, 2000

SUBJECT: Local Certified Equity Pools.

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FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill provides a tax credit against the state tax liability of an investor in a local certified equity pool. It specifies that the tax credit is equal to 40% of a portion of the money, called restricted capital, invested by a local certified equity pool in qualified Indiana businesses. It requires the Indiana Development Finance Authority to operate a program to certify local certified equity pools. The bill sets standards for certification of a local certified equity pool and establishes requirements for investments made by such a pool. It also establishes limitations on the amount of tax credits that may be allocated to local certified equity pools and claimed by investors.

Effective Date: Upon passage.

Explanation of State Expenditures: (Revised) This bill would allow for the establishment of local certified equity pools. These entities would make investments in qualified Indiana-based small businesses (as determined by the regulations of the Small Business Administration) with 70% of employment located in Indiana and in need of venture capital. Qualified businesses may not be involved in real estate, insurance, certain professional services, gas and oil exploration, or retail sales (unless the company is involved in supporting electronic commerce using the Internet). They must further meet the Indiana Development Finance Authority's (IDFA) definition of a "high growth company with high skilled jobs". Funds invested in qualified Indiana businesses would be deemed "restricted capital" and would be eligible for tax credits. Equity pools may also make investments in other business using "unrestricted capital" for which no credits would be allowed.

The IDFA would oversee the formation of the local certified equity pools and review each pool annually to determine if the certification requirements are being met. The bill requires the Authority to consider geographic diversity in certification to ensure that some credits are allocated to pools located outside of the Indianapolis metropolitan area. The IDFA would also be required to submit an annual report to the Legislative Services Agency and the Legislative Council detailing investments, performance, number of jobs created, and other information about each local certified equity pool. The various provisions of this bill would likely increase the administrative expenses of the IDFA. The bill provides for fee revenue to be paid by local certified equity pools (see Explanation of State Revenues below) which should cover any costs associated with this bill.

The Department of State Revenue would incur additional expenses regarding the administration of the new tax credit. However, it is expected that the DOR could absorb these costs given its current budget and resources.

Explanation of State Revenues: (Revised) Under this proposal, investors in local certified equity pools may be entitled to a credit against their state tax liability. This includes liabilities from the Gross Income Tax, Adjusted Gross Income (AGI) Tax, Supplemental Net Income Tax (SNIT), Bank Tax, Savings and Loan Association Tax, Insurance Premium Tax, and Financial Institutions Tax. Investors may receive a tax credit equal to 40% of the amount of restricted capital annually invested by a local certified equity pool in a qualified business. The IDFA would administer this credit. This tax credit is effective upon passage of the bill and could reduce state revenue collections by an indeterminable amount beginning in FY 2001. Income taxes are distributed to the General Fund and the Property Tax Replacement Fund.

The aggregate amount of tax credits allowable under this proposal is $40 M, and a particular local certified equity pool would be limited to receiving $7.5 M (aggregate) in tax credits. To be eligible to apply for certification, a pool must have a total of $10 M in committed funding. The IDFA must allocate all tax credits under this proposal by January 1, 2005. However, investors may claim tax credits for up to five years after the date which their restricted capital is invested in a qualified business.

The IDFA would collect an application fee for each established local certified equity pool and an annual certification fee. The amount of the fees would be determined by the IDFA. The annual fee is to be used to cover the cost of the annual review of each pool as required by this bill. Revenue from the application fee could also be used to help defray other additional administrative costs (see above Explanation of State Expenditures).

Secondary impact: If the investments made through local certified equity pools are successful in creating new jobs and business development, there should be increases in corporate and personal income tax collections. Greater personal income may also result in increased revenue from other sources, such as the Sales Tax, the Motor Vehicle Excise Tax, and others. It is not known if the positive secondary impacts associated with this proposal would be enough to offset the reduction in tax revenues.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Secondary impact:* If the investments made through local certified equity pools are successful in creating employment and economic development, there could be positive secondary fiscal impacts for local units (see above Explanation of State Revenues).

State Agencies Affected: Indiana Development Finance Authority, Department of State Revenue.

Local Agencies Affected:

Information Sources: