Ohio Legislative Service Commission

Thomas Kilbane

Fiscal Note & Local Impact Statement

Bill: H.B. 253 of the 131st G.A.

Date: October 28, 2015

Status: As Reported by House Agriculture and Rural Development

Sponsor: Rep. Retherford

Local Impact Statement Procedure Required: Yes

Contents: Establishes a nonrefundable insurance tax credit for rural business growth fund investors

State Fiscal Highlights

STATE FUND	FY 2016	FY 2017	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	Potential loss of several million
Expenditures	- 0 -	- 0 -	- 0 -
Ohio Rural Jobs Fund (new)			
Revenues	Potential gain	Potential gain	Potential gain
Expenditures	Potential increase	Potential increase	Potential increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2016 is July 1, 2015 – June 30, 2016.

- The bill authorizes tax credits against the insurance taxes. Thus, the bill has the potential to decrease insurance tax revenue. The actual revenue loss would be dependent on the level of credit-eligible investments and credits issued by the Development Services Agency (DSA).
- The bill provides that DSA may not approve more than $45 million in tax credit certificates over the life of the program (i.e., the tax credit cap). Thus the revenue loss to the state would not exceed $45 million, and the total would be spread across at least three years, and possibly many more years than that. Tax credits cannot be claimed for two years, meaning the revenue loss would begin after the current biennium.
- The insurance tax receipts against which the credits are eligible to be claimed are deposited in the GRF which would bear the majority of the revenue loss. Any reduction to GRF tax receipts would reduce the amount distributed to the Local Government Fund (LGF) and Public Library Fund (PLF), which would bear the remainder of the revenue loss.

- Companies seeking to establish a rural business growth fund would apply to DSA for authorization, and would be required to pay a $5,000 application fee. The bill creates the Ohio Rural Jobs Fund to receive the resulting revenue, which may offset any associated administrative expenses.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2016	FY 2017	FUTURE YEARS
Counties, municipalities, townships, and public libraries (LGF and PLF)			
Revenues	- 0 -	- 0 -	Potential loss
Expenditures	- 0 -	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Under permanent law, a portion of GRF tax receipts is subsequently transferred to the LGF and the PLF, with the LGF receiving 1.66% of GRF tax revenue and the PLF receiving 1.70%.[1] Thus, the potential revenue loss to each local fund would not exceed $750,000 over a period of three years.

Detailed Fiscal Analysis

The bill authorizes a nonrefundable tax credit against domestic and foreign insurance premiums taxes for certain taxpayers. If the amount of the credit for a single taxpayer in a taxable year exceeds the tax due for that year, the excess is carried forward to ensuing years until fully used. The bill provides that on and after October 1, 2015, a person that has developed a business plan to invest in rural business concerns in Ohio and has successfully solicited private investors to make capital contributions in support of the plan may apply to the Development Services Agency (DSA) for certification as a rural business growth fund.[2] DSA may then award tax credits to the investor.

The tax credit will be equal to the insurance company's credit-eligible capital contribution, as deemed by DSA, and may be claimed up to one-third in each of years three, four and five after the investment was made. No credit can be claimed in years one and two. The aggregate amount of tax credits approved by DSA is limited to $45 million. Assuming DSA awards the entire amount of tax credits allowable under the bill, the potential revenue loss may be up to $15 million the first taxable year credits may be claimed. The annual revenue loss in subsequent years may be higher than $15 million, depending on credit carryover and taxpayer liabilities.

---

[1] H.B. 64, the current operating budget act, temporarily increases the PLF share to 1.70% for FYs 2016-2017. In the absence of action by the General Assembly the share will revert to 1.66% for FY 2018 and thereafter.

[2] Rural business growth funds, as defined in the bill, are essentially private investment funds licensed by the U.S. Small Business Administration or the U.S. Department of Agriculture (USDA). The funds are allowed to borrow from these federal government agencies and supplement the capital raised from private investors with access to low cost, government guaranteed debt.

Receipts from state insurance taxes are deposited into the GRF. There is a 0.75% surtax on premiums attributable to fire insurance. Revenue from the surtax is deposited into the Fire Marshal Fund used by the Department of Commerce. LSC assumes the tax credits are not eligible to be claimed against a surtax liability, leaving the Fire Marshal Fund unaffected by this bill. Additionally, under permanent law, a portion of GRF tax receipts is subsequently transferred to the Local Government Fund (LGF) and the Public Library Fund (PLF), with the LGF receiving 1.66% of GRF tax revenue and the PLF receiving 1.70%. Under current law the PLF share will revert to 1.66% for FY 2018 and thereafter. Thus, if DSA issues the maximum amount of tax credits, the potential revenue loss to those local funds would total about $1.5 million over a period of at least three years.

A key requirement for a rural business growth fund to qualify as such with DSA is a revenue impact assessment for the applicant's rural growth investments. The assessment must be done by a nationally recognized third-party independent economic forecasting firm and demonstrate that the business plan will result in a positive economic impact on Ohio over a ten-year period that exceeds the cumulative amount of tax credits that would be issued if the application were approved. Due to the strict criteria for eligible rural business growth funds laid out in the bill, we do not anticipate a large number of funds to apply or qualify. The bill requires a $5,000 fee due with an application and creates the Ohio Rural Jobs Fund, in which the fee revenue will be deposited, to partially or fully offset additional administrative costs at DSA. Also, it is assumed that all potential credit-eligible investments from insurance companies into a rural business growth fund will come from moneys that were not previously credit-eligible. In theory, if an insurance company chose to reallocate its investments from a separate, previously credit-eligible investment to the credit-eligible rural business growth fund, it would decrease the potential marginal loss to state and local revenue.

Potential indirect fiscal effects

The bill requires the applicant to show positive economic impacts from the projects receiving the credit-eligible capital from the rural business growth fund. Such economic benefits may be additional employment positions created or retained; improvement in property, plant, and equipment; or a growth in rural business profits, among others. In theory, these developments would create additional tax revenue for the state and local governments. If that is realized, the fiscal revenue loss from the bill would be reduced. However, LSC would classify any such potential revenue as an indirect fiscal effect of the bill, and it is possible that those projected economic benefits may not occur.

HB0253HR.docx/dp