

**STATE  
FISCAL IMPACT**

**Drafting Number:** LLS 14-0691 **Date:** February 26, 2014  
**Prime Sponsor(s):** Rep. Tyler; Gerou **Bill Status:** House Finance  
 Sen. Kefalas **Fiscal Analyst:** Louis Pino (303-866-3556)

**SHORT TITLE:** ADVANCED INDUSTRY INVESTMENT INCOME TAX CREDIT

Fiscal Impact Summary*	FY 2013-14 Current Year	FY 2014-15	FY2015-16
<b>State Revenue</b>	<b>(\$500,000)</b>	<b>(\$1.5 million)</b>	<b>(\$2 million)</b>
<i>Revenue Change</i>			
General Fund	(\$500,000)	(\$1.5 million)	(\$2 million)
<i>State Transfers</i>			
Cash Funds	(\$137,992)		
Cash Funds	\$137,992		
<b>State Expenditures</b>		<b>\$102,211</b>	<b>\$58,651</b>
General Fund		\$16,480	\$0
Cash Funds		80,307	52,955
Centrally Appropriated Costs**		\$5,424	\$5,696
<b>FTE Position Change</b>		0.5 FTE	0.5 FTE
<b>Appropriation Required:</b> \$16,480 - Revenue; \$80,307 Office of Economic Development (FY2014-15)			

\* This summary shows changes from current law under the bill for each fiscal year. Transfers and diversions result in no net change to state revenue. Parentheses indicate a decrease in funds.

\*\* These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

**Summary of Legislation**

HB14-1012 repeals the Colorado Innovation Investment Income Tax Credit (CIITC) and replaces it with the Advanced Industry Investment Income Tax Credit. The income tax credit is available in tax years 2014 through 2017.

The credit is equal to 25 percent of the qualified investment, or 30 percent if the investment is to a business located in a rural or economically distressed area. The maximum credit amount per tax year is \$50,000 for each investment in a qualified business. Taxpayers may claim multiple credits if they invest in more than one qualified business.

The bill allows the Office of Economic Development to authorize \$1 million in tax credits for tax year 2014, and \$2 million each year for tax years 2015, 2016, and 2017. The credits are approved on a first-come, first-serve basis. The credit is non-refundable but may be carried forward for five years.

In order to qualify for the credit, an investor must invest a minimum of \$25,000 in a business that qualifies as a Colorado advanced industry. The following meet the definition of an advanced industry:

- advanced manufacturing;
- bioscience;
- electronics;
- aerospace;
- energy and natural resources;
- infrastructure engineering; and
- information technology industries.

Businesses must either have a headquarters located in Colorado or have at least 50 percent of its employees based in Colorado. The company must have received less than \$10 million dollars from third party investors, and annual revenues can not be more than \$5 million. Also, the company must have been actively operating and generating revenue for less than 5 years. Finally, in order to qualify for the credit, the investor may not own more than 30 percent of the business before making the investment or more than 50 percent after making the investment. The Office of Economic Development is responsible for verifying the eligibility of the business.

Qualified Investors are individuals, LLC's, partnerships, and S corporations. C corporations are not eligible for the income tax credit.

On November 1, 2017, the bill requires the Office of Economic Development to submit a report summarizing all the tax credits issued since July 1, 2014.

Finally, HB14-1012 requires the state treasurer to transfer the balance of the Innovation Investment Tax Credit Cash Fund to the Advanced Industry Investment Tax Credit Fund on the effective date of the bill. The bill requires the legislature to provide an annual appropriation from the fund to the Office of Economic Development to defray the costs of authorizing the credits.

## Background

HB09-1105 created the Colorado Innovation Investment Tax Credit Cash Fund. The CIITC was available to investors for qualifying investments of at least \$25,000 made during tax year 2010 to qualified Colorado businesses involved in the research and development or manufacturing of new technologies, products, or processes. The credit was equal to 15 percent of the investment but could not exceed \$20,000. The total amount of credits authorized by the program for tax year 2010 was capped at \$750,000. In 2010, the Office of Economic Development authorized about \$550,000 of credits. HB11-1045 permanently extended the program, but made credits in tax year 2011 conditional upon the receipt of funds from public or private sources to the Colorado Innovation Investment Tax Credit Cash Fund.

## State Revenue

**General Fund revenue will be reduced by \$7 million between FY 2013-14 and FY 2016-17**, including \$500,000 in FY 2013-14, \$1.5 million in FY 2014-15, and \$2 million in FY 2015-16. FY 2013-14 is a half-year impact. The fiscal note assumes the Office of Economic Development will authorize the full amount allowed under this bill each year from 2014 to 2017. The type of firms allowed to receive these investments make it likely the amount of credits authorized each year will be met.

**State Transfers.** HB14-1012 requires the state treasurer to transfer the balance of the Innovation Investment Tax Credit Cash Fund to the Advanced Industry Investment Tax Credit Cash Fund on the effective date of the bill. As of January 24, 2014, the cash balance for the Innovation Investment Tax Credit Cash Fund is \$137,992.

**State Expenditures**

**HB14-1012 will increase state expenditures by \$102,211 in FY 2014-15 and \$58,651 in FY 2015-15, as shown in Table 1.**

**Department of Revenue** — This bill will require an estimated 80 hours of programming of the GenTax system, paid at a rate of \$206 per hour, or \$16,480 in one-time programming costs for FY 2014-15. These costs will be paid from the General Fund.

**Office of Economic Development** — This bill requires a 0.5 FTE Program Manager to implement and administer the new tax credit. In addition, the Program Manager will be responsible for verifying eligibility, monitoring, tracking and reporting on the program. The bill will also require programming costs to modify the Salesforce computer program to automate the application process and tracking and reporting procedures. These are costs are estimated to be \$44,000 for FY 2014-15. Costs for the Office of Economic Development are assumed to be paid from the Advanced Industry Investment Tax Credit Cash Fund.

<b>Table 1. Expenditures Under HB14-1012</b>		
<b>Cost Components</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Personal Services - Program Manager	\$33,480	\$33,480
FTE	0.5	0.5
Operating Expenses and Capital Outlay Costs	\$2,827	\$475
Programming and Marketing Costs	\$60,480	\$19,000
Centrally Appropriated Costs*	\$5,424	\$5,696
<b>TOTAL</b>	<b>\$102,211</b>	<b>\$58,651</b>

\* Centrally appropriated costs are not included in the bill's appropriation.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

<b>Table 2. Centrally Appropriated Costs Under HB14-1012*</b>		
<b>Cost Components</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$3,312	\$3,312
Supplemental Employee Retirement Payments	\$2,112	\$2,384
<b>TOTAL</b>	<b>\$5,424</b>	<b>\$5,695</b>

\*More information is available at: <http://colorado.gov/fiscalnotes>

**Effective Date**

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

**State Appropriations**

For FY 2014-15, the following appropriations are required:

- \$16,480 General Fund to the Department of Revenue; and
- \$80,307 to the Office of Economic Development from the Advanced Industry Investment Tax Credit Cash Fund.

**State and Local Government Contacts**

Office of Economic Development

Revenue