Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: H.B. 348 of the 128th G.A.

Date: December 1, 2009

Status: As Introduced

Sponsor: Reps. Goyal and S. Williams

Local Impact Statement Procedure Required: Yes

Contents: Increases the Ohio Venture Capital Authority's annual tax credit authorization from $20 million to $23 million and lifetime authorization from $380 million to $550 million

State Fiscal Highlights

STATE FUND	FY 2010	FY 2011	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	Potential loss of up to $2.8 million per year
Expenditures	- 0 -	- 0 -	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- The bill increases the annual limit on venture capital tax credits. The tax credits are applied against the personal income tax, the corporate franchise tax, the dealers in intangibles tax, the foreign insurance tax, and the domestic insurance tax. Thus, the bill may reduce revenue from those taxes. Tax revenues are distributed primarily (94.1%) to the General Revenue Fund (GRF).

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
Counties, municipalities, townships, and public libraries			
Revenues	- 0 -	- 0 -	Potential loss of up to $0.2 million or more
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.

- Tax revenues are distributed under permanent law to the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). Thus, the increase in the venture capital tax credit cap may reduce distributions to those funds. Also, any tax credits that are applied against the dealers in intangibles tax will reduce the share of receipts from the tax that is distributed to county undivided local government funds.

Detailed Fiscal Analysis

The Ohio Venture Capital Authority (OVCA) administers the Ohio Venture Capital Program (OVCP) which makes available private investment capital to qualified Ohio-based businesses in the early stages of business development and established Ohio-based businesses developing new methods or technologies. Program funds are loans made by taxpayers to the OVCP, and those funds are invested in for-profit venture capital funds that invest at least 50% of their program fund money in Ohio-based businesses. The loans are secured against investment losses, either through reimbursement directly from money from the OVCP or through refundable tax credits (if the credit is larger than the tax liability, the excess is paid to the taxpayer). These contingent tax credits may be claimed against the insurance taxes (foreign and domestic), the corporate franchise tax, the dealers in intangibles tax, and the personal income tax. Current law authorizes the OVCA to issue up to $20 million in venture capital (VC) tax credit certificates per fiscal year, and up to $380 million during the venture capital program's lifetime.

The bill increases the fiscal year limit to $23 million and the lifetime limit to $550 million. Thus, the bill raises the potential annual revenue loss from the refundable VC tax credits by the increase in the annual limit, or $3 million. Revenues from the insurance taxes, personal income tax, and the corporate franchise tax are distributed to the General Revenue Fund (GRF, at 94.1%), the Local Government Fund (LGF, 3.68%), and the Public Library Fund (PLF, 2.22%). The revenue foregone by the GRF may be up to $2.8 million per year. The revenue loss to the LGF and the PLF may be up to $0.2 million per year. The increase in the annual credit cap may also reduce distributions of receipts from the tax on dealers in intangibles to the county undivided local government funds. All taxes paid by "qualified" dealers[1] are credited to the GRF. For "nonqualified" dealers, a share of the dealers in intangibles tax revenues, 5 mills, is distributed to the county undivided local government fund based on where the firm's capital was employed. Revenues from the remaining 3 mills are deposited into the GRF. Any reduction in GRF receipts from the dealers in intangibles tax due to the VC tax credits would be shared between the GRF, the LGF, and the PLF as described above for the other taxes.

[1] A "qualified" dealer is a dealer that is a member of a "controlled group" of which a financial institution or insurance company is a member.

An official with the Department of Development reports that no VC tax credits have been utilized since the inception of the OVCP. Also, no credit claims have been made against any tax according to information from the Department of Taxation, and the likelihood of revenue losses in the current biennium from the VC tax credits is small. This fiscal note assumes that any potential revenue loss from the bill would occur after FY 2011.

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