Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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An Act Relating to Promoting Economic Development
Draft Senate Committee on Economic Development, Housing and General Affairs bill (8.1)
Sections with a state fiscal impact

Sec. A1 VEGI Approval Criteria, Enhanced Incentives in a Qualifying LMA, Recapture and Confidentiality

The proposed changes in these sections would not have a fiscal impact, but the confidentiality language applies to the Joint Fiscal Office. There are changes proposed that could make these sections more clear.

Sec. A2 Allocation of Funds
This language "allocates" 10% of the incremental revenue generated to the General Fund each fiscal year due to VEGI incentives to the Vermont Training Program. Any amount of theoretical revenue generated by this program is included by the economists in the consensus state revenue forecasts. Therefore, any amount appropriated through this section of the bill would reduce General Fund revenue available for all other GF budget programs.

Sec C.1 Angel Investor Tax Credit and Motion Picture Production Tax Credit
The Angel Investor Credit is for 40% of the value of each eligible venture capital investment per qualifying business during the taxable year. A single investor may receive a tax credit for up to $500,000 of investment in three consecutive years per business with a maximum of $5.0 million for all investors in a single business. The credit is claimed over four years, 25% per year, but the credit may not reduce the tax liability by more than 50% per year and may be carried forward for 10 years. (See NCSL summary of Angel Credits in other states for comparisons.)

While it is unknown how much potential investment may occur, if 10 investors each met the maximum amount ($500,000 each) for a single business for a total of $5.0 million they would qualify for $2,000,000 in tax credits over a four year period or $500,000 per year if the investors had enough tax liability to claim the credits in the year they were earned. The Maine Seed capital investment tax credit has a similar structure and is capped at $5.0 million per year. In FY16 $1.8 million of credits were awarded and in FY 2017 $2.7 million of credits. Approximately 200-300 taxpayers utilized the credit in Maine per year. The Angel Investor Credit could have a similar cost in Vermont. There is no prohibition for investors to qualify for both this new credit and the existing Seed Capital Credit with a single investment.

New Motion Picture Production Tax Credit of 25% of production expenditures directly related to a production filmed in VT with a total budget of at least $250K; 15% of production expenditures outside the state (for items not available in VT with the $250K threshold); and 10% of production expenditures for 100% animated or game consoles with embedded online capabilities. The range of costs to the state due to this credit would vary widely depending on the type and size of film produced in Vermont annually – the motion picture production tax credit be minimal or very high, possibly $10 million or more. Many states have added restrictions to these credits such as 1) requiring audits, 2) requiring more than 50% of the production to be done in-state etc.

Of the other competitive location states in New England (in brief), Vermont and New Hampshire have no film incentives; New York has one of the largest programs (30% fully refundable credit, 30-35% of post-production expenses regardless of film location and 5% film investment tax credit); Massachusetts credits are 25% for production, payroll and a sales tax exemption with up to 90% refundable; Connecticut has a film and digital media production tax credit program, but it was suspended for FY16 and FY17;[1] Maine's program is a 5% non-transferable, non-refundable tax credit on non-wage expenses and 12% of wages paid to ME residents and 10% for non-ME residents; Rhode Island's program is 25% and is transferrable with a cap of $15 million overall and $5 million per project. Seven states have ended their incentive programs and one has suspended it due to high costs and low state benefits, while other states have added programs. (Source: NCSL 2016 State Film Production Incentives/Programs) There are a number of studies indicating that film tax incentives provide very small state benefits in job growth, wage growth or growth of the film industry as a share of the state's economy for example: Lights, camera and no action: How state film subsidies fail -University of Southern California Study 2016 among many others both positive and negative.

Sec. C.2. Research and Development Tax Credit
The proposal to increase the state R&D tax credit from 27% to 30% of the federal credit amount would cost an estimated **additional $175,000 General Fund in FY 2018.** This estimate is of cost a 3% increase for taxpayers currently claiming the credit and does not assume any additional activity due to the increase.

Sec. C.3. Aircraft Exemption and Expansion
This section eliminates the sunset on the current sales and use tax exemption for the purchase of commercial aircraft and the parts, machinery and equipment installed in both commercial and civil aircraft. In addition, this would excluded from the sales tax the purchase of any civil aircraft registered in state including planes, helicopters, gliders, hot air balloons, drones and other aircraft. The expansion of this exemption is estimated to reduce sales and use tax collections by an **additional $150,000 to $200,000 annually, of which 65% is GF and 35% EF.**

C.5. Sales Tax Holiday for Energy Star Products
This section would provide a sales tax holiday for *an unknown period of time* for all energy start products. In addition, vendors would be refunded up to $10,000 for the costs of reprogramming from the General Fund; the towns with local option sales taxes and the General Fund (65%) and the Education Fund (35%) would be "reimbursed" for the cost of the sales tax holiday with revenues from the energy efficiency utilities.

I.2 Worker's Compensation Administration Fund
This reduces the percentage from 1.75% to 1.4% the amount of calendar year premiums for worker's compensation insurance paid by businesses to administer the worker's compensation program. The reduced percentage is estimated to raise $2,744,000 in FY 2018 to administer the program.

[1] http://ct.gov/ecd/lib/ecd/Legislative_Changes_7_1_15.pdf

Lastly, there are a number of appropriations or placeholders for appropriations within the bill:

Section and Subject		Amount
B.3.	Vermont Enterprise Fund	?
C.5.	Sales Tax Holiday	$ 10,000
F.1	Tourism and Marketing Initiative	$750,000
G.1.	Vermont Training Program	$200,000
J.4.	ACCD for 2 FTEs and marketing	$500,000
J.6.	VT Small Business Development Ctr	$450,000
J.7.	Working Lands Enterprise Fund	$1,000,000
K.1.	Microbusiness Development Program	$200,000
K.3.	Community Action Agencies (workforce development)	$250,000
K.4.	Community Action Agencies (financial education)	$200,000
K.5.	VT Matched Savings Account Program	$150,000
K.&.	Volunteer Income Tax Assistance Program	$100,000
L.2.	Climate Economy Business Accelerator	$300,000
		$4.11 million