

**NORTH CAROLINA GENERAL ASSEMBLY  
LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 987  
**SHORT TITLE:** Venture Capital Investment Incentive  
**SPONSOR(S):** Representative Wilkins, et al.

(\$ MILLION)					
FISCAL IMPACT					
	Yes ( X )	No ( )	No Estimate Available ( )		
	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
<b>REVENUES</b>	\$(15,000,000)	\$(15,000,000)	\$(15,000,000)	\$(15,000,000)	\$(15,000,000)
<b>EXPENDITURES</b>					
Secretary of State:	\$38,000	\$38,000	\$38,000	\$38,000	\$38,000
<b>POSITIONS:</b>	One temporary for 120 days a year.				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b>	Department of Revenue Corporate Income Tax Division Office of Secretary of State Department of Insurance				
<b>EFFECTIVE DATE:</b>	For taxable years beginning on or after January 1, 1997 and expires for investments made on or after January 1, 2000.				

**BILL SUMMARY:**

The proposed act allows insurance companies a 100% tax credit against their insurance premium tax for every dollar provided in venture capital funding for small businesses.

Under the bill, an insurance company invests in a certified North Carolina capital company (CAPCO), which in turn provides capital to approved investments. The insurance company is entitled to a tax credit of 100% of the cash it invests in a CAPCO during the 365-day period after the company has been initially certified. The credit may be taken at the rate of up to 10% per year until the entire credit is used. Any unused credit may be carried forward for five years, subject to the 10% limit. The credit is transferable to another taxpayer. If a CAPCO is decertified, the insurance company is not permitted to take any unused tax credits.

The total amount of credit that may be taken in any one taxable year is \$15,000,000. The credit is allocated to taxpayers on a "first come, first served" basis. The CAPCO must apply with the Secretary of State for the allocation of credits on behalf of its investors. Upon receipt of the application, the Secretary of State will determine the amount of available credit not yet allocated for each taxable year specified in the application. The Secretary of State must allocate to the CAPCO, on behalf of its investors, the total amount of credit applied for in the application to the extent of the available credit not yet allocated for each taxable year. To claim the credit, the taxpayer must provide the Secretary of Revenue with a copy of the CAPCO's application for allocation of credit, a copy of the Secretary of State's written allocation of credit, and any other supporting documentation the Secretary may require.

An insurance company may invest cash, either in the form of equity or debt capital, in a certified North Carolina capital company to be eligible for the credit allowed by this bill.

The value of the credit taken is to be added back to the amount of premiums tax liability when calculating the amount of the regulatory surcharge owed by an insurance company under G. S. 58-6-25. As a result, the surcharge would not be affected by this bill.

#### **ASSUMPTIONS AND METHODOLOGY:**

The maximum cumulative credit allowed under G. S. 105-228.10E is \$15,000,000 a year. Any number of eligible companies could invest a maximum of \$150 million in small business ventures and take a maximum of 10% a year, \$15 million, in credit against their annual premium tax liability.

The Secretary of State provided cost and fee estimates under the pressure of a very short deadline for completion of this fiscal note. Therefore, we believe that these numbers provided by the Secretary of State should be considered rough estimates. To perform the additional responsibilities under this bill, the Secretary of State estimates that it would need the services of one temporary accountant or financial analyst for about three months per year. This analyst would review audited financial statements and other documents to determine whether capital companies met the requirements for certification under this bill. At \$50 per hour and 120 days per year, the cost to the Secretary of State would be about \$48,000 annually. The Secretary of State believes that a minimum of 10 companies would be certified as North Carolina capital companies. At \$1,000 per certification, the Secretary of State would collect fees in the amount of \$10,000.

#### **FISCAL RESEARCH DIVISION**

**733-4910**

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**APPROVED BY:** Tom Covington **TomC**

**DATE:** April 28, 1997



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