NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE
This fiscal note contains an attachment that cannot be transmitted electronically; paper copies of the attachment will be available through the Fiscal Research Division and the Office of Printed Bills.

BILL NUMBER: HB 995
SHORT TITLE: Venture Capital Investment Incentive
SPONSOR(S): Proposed Committee Substitute
FISCAL IMPACT: **Expenditures:** **Increase ()** **Decrease (X)**
Revenues: **Increase ()** **Decrease (X)**

FUND AFFECTED: **General Fund (X) Highway Fund () Local Govt. ()**

BILL SUMMARY:
The proposed act establishes Certified North Carolina Capital Companies(CNCCCs) as a specific category of corporation. The purpose of CNCCCs would be to invest capital into approved business ventures; the act sets out the limitations a business is subject to and the types of investments capital companies are bound to in section 3 of the act.

The bill establishes a 100% credit against the gross premiums tax for investments made by insurance companies in certified capital of CNCCCs. The credit equals 100% of the amount invested, but must be taken in 10 installments; no more than 10% percent of the credit can be taken in a single taxable year. In any fiscal year if the credit exceeds $20,000,000, Article 8C of Chapter 105 is automatically repealed for investments made on or after the first day of the following January.

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 the bill.

EFFECTIVE DATE:
Taxable years beginning on or after January 1, 1996. The tax credits are available for investments made on or after July 1, 1996. The tax credit is no longer available for investments made on or after January 1, 1999.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:
NC. Department of Revenue Corporate Income Tax Division

ESTIMATE FISCAL IMPACT ($MILLIONS)

	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-00	FY 2000-01
REVENUES					
GENERAL FUND	$(10.8)	(33.2)	(33.2)	(33.2)	(33.2)

ASSUMPTIONS AND METHODOLOGY
Profit maximizing firms are concerned with putting the firm resources to the greatest and best use to maximizing profits. Given the opportunity to invest the same amount of money that a firm would otherwise pay in tax, in

an investment that has an expected monetary return, the firm will choose to invest the money.

The growth in gross premiums tax is expected to be at least 2.8% per year for tax years 1997, 1998, and 1999; the average over the past three years. The estimate assumes $108.5 million will be invested in FY 96-97 and $223 million invested in FY 97-98. In the first fiscal year, the amount of venture capital invested will be restricted to several time constraints. First, only investments made on or after July 1, 1996, will be eligible for credits in tax year 1996. Second, the capital investment companies will have to be incorporated according to the limits set-out in the act, qualified investments will have to be identified, and capital raised for these investment purposes. The second fiscal year impact assumes a maximum credit will be taken against the State's gross premiums.

The credit expires on January 1, 1999 or before if in a single year the credit exceeds $20 million. In fiscal year 1997-98 the credit is expected to exceed the $20 million cap by $13.2 million. After the third year, the $33.2 million is the expected maximum annual reduction in General Fund revenue over the next 8 fiscal years. The final year for which this analysis identifies an impact is fiscal year 2006-07, the reduction associated with this year is $22.3 million. The total estimated reduction in General Fund revenue for the first five year period is $143.6 million.

OTHER STATES EXPERIANCE
The State of Louisiana enacted a similar tax credit in 1983. The credit is equal to 120% capital invested and the amount of capital placed in qualified venture capital funds is approximately $110 million, year to day.

FISCAL RESEARCH DIVISION
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