

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2018 REGULAR SESSION**

MEASURE

2018 BR NUMBER **1043**

HOUSE BILL NUMBER **6**

RESOLUTION NUMBER _____

AMENDMENT NUMBER _____

SUBJECT/TITLE **An ACT relating to the establishment of a tax credit to promote investments in rural Kentucky businesses and making an appropriation therefor.**

SPONSOR **Representative Blanton**

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

FISCAL ESTIMATES	2017-2018	2018-2019	2019-2020	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				Negative in Future Years See Fiscal Explanation Below
EXPENDITURES				
NET EFFECT				Negative in Future Years See Fiscal Explanation Below

() indicates a decrease/negative

MEASURE’S PURPOSE: The purpose of this proposed bill is to attract capital to stimulate business development in rural areas, retain and attract new businesses and industry in those areas, stimulate growth, and create jobs. This bill would allow a new tax credit against the taxes imposed on insurance companies and financial institutions, for contributions made by them into rural growth funds, which make investments in businesses that are principally operating in certain rural areas of the state and that are engaged in agriculture, agribusiness, manufacturing, plant sciences, or services or technology activities.

PROVISIONS/MECHANICS: The proposal creates new sections of KRS Chapter 136. Section 1 declares findings and the purpose of the credit.

Section 2 defines terms related to the tax credit.

Section 3 requires an entity to follow a process to apply for certification as a rural growth fund. Applicants must verify the investment of more than \$100 million in nonpublic companies, including at least \$50 million in nonpublic companies located in rural areas, be licensed as a rural business investment company or as a small business investment company for federal purposes, and be in compliance with applicable state and federal securities laws and regulations and in good standing on all taxes owed to the Commonwealth. Additionally, the Department of Revenue shall not issue approval for more than \$100 million in total aggregate investment authority to all applicants, and not more than \$60 million in credit-eligible capital contributions. The Department of Revenue shall not issue approval for any amount of investment authority or credit-eligible capital contributions on or after October 1, 2022.

Section 4 establishes a nonrefundable credit for taxpayers that, as investors, make a capital contribution to a rural growth fund. This tax credit applies to Insurance Premiums Taxes and the Bank Franchise Tax. A taxpayer may claim no more than 25 percent of the credit allowed in each of the taxable years that include the second, third, fourth, and fifth anniversaries of the closing date, exclusive of amounts carried forward.

Section 5 provides for revocation of tax credits in certain situations.

Section 6 establishes a process for the rural growth fund to request from the Department of Revenue a written determination as to whether the entity in which it proposes to invest qualifies as a rural business.

Section 7 allows the department to audit rural growth funds.

Section 8 limits any liability of the Commonwealth in regard to rural growth funds or investments made by them.

Section 9 requires various reports to be filed with the department and the Legislative Research Commission to enable evaluations of the credit program.

Section 10 provides for the ordering of the credit for Insurance Premiums Tax purposes.

Section 11 provides for the ordering of the credit for Bank Franchise Tax purposes.

Section 12 declares a short title to be the Kentucky Rural Jobs Tax Credit Act of 2018.

FISCAL EXPLANATION: The proposed bill allows the Department of Revenue to accept applications from entities seeking approval as a rural growth fund beginning October 1, 2018. The department is allowed 60 days to complete their review and make a determination. If approved, the rural growth fund has 60 days to collect the credit-eligible contributions from the investors and collect one or more investments of cash, that when added to the investor contributions, equal the total amount of approved investment authority. The maximum amount of tax credits allowed under this proposed bill is \$60,000,000. No more than 25 percent may be claimed in each taxable year that includes the second, third, fourth, and fifth anniversaries of the closing date. Based upon these requirements, a negative impact to the General Fund will not occur until FY 2020-2021.

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FY 2020-2021 – (\$15,000,000)

FY 2021-2022 – (\$15,000,000)

FY 2022-2023 – (\$15,000,000)

FY 2023-2024 – (\$15,000,000)

DATA SOURCE(S): LRC

PREPARER: Jennifer Hays NOTE NUMBER: 61 REVIEW: JAB DATE: 1/29/2018

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