

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2020 REGULAR SESSION**

MEASURE

2020 BR NUMBER 800

HOUSE BILL NUMBER 273

TITLE AN ACT relating to the establishment of a tax credit to promote investments in Kentucky businesses.

SPONSOR Representative R. Heath

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS
 LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: _____

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED _____

FISCAL ESTIMATES	2019-2020	2020-2021	2021-2022	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				(\$15,000,000)
EXPENDITURES				
NET EFFECT				(\$15,000,000)

() indicates a decrease/negative

PURPOSE OF MEASURE: This proposal establishes a new tax credit to encourage investment in businesses in the rural areas of this state, stimulate economic development activity, and create new jobs for the residents of the rural areas.

Beginning October 1, 2020, if enacted, the Cabinet for Economic Development will begin accepting applications from entities seeking approval as a growth fund. The growth fund must be licensed as a rural business investment company or as a small business investment company.

Upon receiving approval from the Cabinet, the growth fund collects the investor contributions and, within two years, invests 100% of the moneys contributed by investors. The Cabinet shall not approve more than \$15 million in tax credits to be taken in any single year.

On the closing date of the growth fund, the taxpayer shall earn a vested credit equal to the amount of investor contribution made to the growth fund. Investors are then allowed to claim no more than 20% of the tax credit in the second through sixth anniversaries of the closing date of the growth fund.

The tax credits may be applied to the insurance premiums taxes imposed under KRS Chapter 136 or the income taxes and limited liability entity tax imposed under KRS Chapter 141.

FISCAL EXPLANATION: Other tax credits which are structured in this manner have fully met the tax credit cap within a few days after applications are accepted. It is estimated that the Cabinet will receive sufficient applications to fully award \$15 million in tax credits annually over the five-year period.

Because applications will not be accepted until fiscal year 2020-2021 and because the tax credits cannot be claimed until the second anniversary of the growth fund closing date, no fiscal impact is estimated in this biennium. However, a \$15 million negative impact to General Fund receipts will occur during each year of the second through sixth anniversaries of the closing date.

DATA SOURCE(S): LRC staff

PREPARER: Jennifer Hays **NOTE NUMBER:** 67 **REVIEW:** JAB **DATE:** 1/17/2020