

**Report of Qualified Investments
In
Small Business Capital Companies
and
Rural Small Business Capital Companies**



Submitted by the Oklahoma Tax Commission

for Tax Year 2010

April 30, 2012

The following report for the “Small Business Capital Formation Incentive Act” (68 O.S. §2357.60 et seq.) and the “Rural Venture Capital Formation Incentive Act” (68 O.S. §2357.71 et seq.) is hereby submitted to the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate pursuant to the provisions of Sections 2357.65 and 2357.76 of Title 68.

The report provides the amount of credits actually claimed and allowed pursuant to the provisions of these Sections for the 2010 tax year. The report also provides statistical information on the 2010 qualified investments made by qualified small business capital companies and qualified rural small business capital companies, the expenditures made by the Oklahoma small business ventures and rural small business ventures as a result of these investments, and the number of jobs reported to be created in this state by the Oklahoma small business ventures and rural small business ventures.

The information provided herein is a compilation of the information submitted to the Tax Commission from the following sources.¹

- Small Business Capital Company Information Report (Form 527),
- Rural Small Business Capital Company Information Report (Form 526),
- 2010 Income Tax Returns, and
- Responses to Survey of Small Business Capital Companies and Rural Small Business Capital Companies.

Senate Bill 1590, passed by the Second Regular Session of the 52nd Legislature and signed by the Governor on June 9, 2010, established a moratorium on tax credits for qualified investments in Oklahoma small business ventures and Oklahoma rural small business ventures from June 1, 2010, through December 31, 2011. No amount of a qualified investment made in a qualified small business capital company or qualified rural small business capital company which has not been invested in one or more Oklahoma small business ventures or Oklahoma rural small business ventures prior to June 1, 2010 is eligible for any credit otherwise authorized, and no investment made during the moratorium is eligible for a credit.

¹ The Tax Commission expresses no opinion as to the accuracy of the data in this report since no audit of the companies’ responses and/or books and records has been conducted prior to this report.

Small Business Capital Formation Incentive Act

The Small Business Capital Formation Incentive Act provides credits against Oklahoma income taxes, privilege taxes levied against banking associations and credit unions, and insurance premium taxes² for qualified investments in qualified small business capital companies.

The credit provided in the Act is equal to twenty percent (20%) of qualified investments made in qualified small business capital companies which are subsequently invested in an Oklahoma small business venture by the qualified small business capital company.

The Act also provides a twenty percent (20%) credit for qualified investments made in Oklahoma small business ventures “in conjunction” with qualified investment in such ventures made by a qualified small business capital company. To qualify for the credit, the “in conjunction” investment must be made by a shareholder, member or partner of a qualified small business capital company that has made a qualified investment in an Oklahoma small business venture.

In the 2010 calendar year, a total of nine (9) small business capital companies reported investments in fifteen (15) small business ventures. A total of \$85,195,546 was reported as invested in these ventures by the small business capital companies. There was also reported a total of \$43,271,500 of “in conjunction” investments made in the same business ventures.

Based on these reported investments, the potential amount of credits earned from these investments was \$25,693,409.

A review of 2010 income tax returns filed indicates that approximately \$18,479,883 of tax credits authorized by this Act was used to reduce the tax liability of 526 income tax filers.³

² This report does not provide information regarding the amount of credits taken against the insurance premium taxes reported to the Insurance Commissioner of the State of Oklahoma.

³ This report does not distinguish between 2010 credits earned and credits earned in a previous year and carried over to the 2010 tax return.

A survey of small business capital companies was conducted in March of 2012 regarding investments made in 2010⁴. The responses to the survey reported:

- \$87,378,224 spent to acquire tangible or intangible assets,
- 25 jobs created in the state,
- 73 construction jobs created in the state, and
- 70 existing jobs saved in the state.

Rural Venture Capital Formation Incentive Act

The Rural Venture Capital Formation Incentive Act provides credits against Oklahoma income taxes, privilege taxes levied against banking associations and credit unions, and insurance premium taxes⁵ for qualified investments in qualified rural small business capital companies.

The credit provided in the Act is equal to thirty percent (30%) of qualified investments made in qualified rural small business capital companies which are subsequently invested in an Oklahoma rural small business venture by the qualified rural small business capital company. To qualify as a rural small business venture the venture must be located in a “nonmetropolitan area”. A “nonmetropolitan area” includes all areas of the state except a county having a population in excess of one hundred thousand (100,000) persons according to the most recent Federal Decennial Census.

The Act also provides a thirty percent (30%) credit for qualified investments made in Oklahoma rural small business ventures “in conjunction” with qualified investment in such ventures made by a qualified rural small business capital company. To qualify for the credit, the “in conjunction” investment must be made by a shareholder or partner of a qualified rural small business capital company that has made a qualified investment in an Oklahoma rural small business venture.

In the 2010 calendar year, a total of six (6) rural small business capital companies reported investments in twenty one (21) rural small business ventures. A total of \$107,487,426 was reported as invested in these ventures

⁴ Two small business capital companies, reporting investments of \$26,880,500 and potential credits of \$5,376,100 during 2010, have not responded to the survey request.

⁵ This report does not provide information regarding the amount of credits taken against the insurance premium taxes reported to the Insurance Commissioner of the State of Oklahoma.

by the rural small business capital companies. There was also reported a total of \$24,640,574 of “in conjunction” investments made in the rural small business ventures.

Based on these reported investments, the potential amount of credits earned from these investments was \$39,638,400.

A review of 2010 income tax returns filed indicates that approximately \$37,955,122 of tax credits authorized by this Act was used to reduce the tax liability of 888 income tax filers.⁶

A survey of rural small business capital companies was conducted in March of 2012 regarding investments made in 2010⁷. The responses to the survey reported:

- \$64,466,414 spent to acquire tangible or intangible assets,
- 47 jobs created in the state,
- 514 construction jobs created in the state,
- 140 temporary jobs created in the state, and
- 234 existing jobs saved in the state.

⁶ This report does not distinguish between 2010 credits earned and credits earned in a previous year and carried over to the 2010 tax return.

⁷ One rural small business capital company did not provide any survey information for a claimed 2010 investment of \$20,000,000 and potential credits of \$6,000,000.

APPENDIX

Summary Report Information by Year

Small Business Capital Companies	2007	2008	2009	2010
Number of Capital Companies	16	11	13	9
Number of Small Business Ventures	15	13	17	15
Investment In Small Business Ventures	\$41,414,019	\$64,180,767	\$43,961,675	\$85,195,546
In Conjunction Investment In SBVs	\$23,400,000	\$16,234,108	\$21,642,967	\$43,271,500
Potential Credits	\$12,962,804	\$16,082,975	\$13,120,928	\$25,693,409
Credits per Filed Tax Returns	\$11,060,000	\$16,943,807	\$17,885,509	\$18,479,883
Expenditures by Small Business Ventures	\$27,273,974	\$60,923,588	\$42,004,031	\$87,378,224
Jobs Created	254	100	21	25
Part Time Jobs	3			
Construction Jobs	850			73
Existing Jobs Maintained	40			70
Rural Small Business Capital Companies	2007	2008	2009	2010
Number of Capital Companies	20	11	8	6
Number of Rural Small Business Ventures	19	26	26	21
Investment In Rural Small Business Ventures	\$159,553,592	\$182,779,453	\$97,357,205	\$107,487,426
In Conjunction Investment In RSBVs	\$90,793,681	\$205,834,732	\$40,412,050	\$24,640,574
Potential Credits	\$75,104,182	\$116,584,256	\$41,330,776	\$39,638,400
Credits per Filed Tax Returns	\$37,406,000	\$73,423,260	\$43,622,682	\$37,955,122
Expenditures by Rural Small Business Ventures	\$142,519,290	\$270,941,615	\$84,086,792	\$64,466,414
Jobs Created	473	502	78	47
Temporary Jobs	41		474	140
Contract Jobs		6	22	
Construction Jobs	175	42		514
Existing Jobs Maintained		210		234