

# **Report of Qualified Investments in Small Business Capital Companies and Rural Small Business Capital Companies**



Submitted by the Oklahoma Tax Commission

for Tax Year 2009

Thursday, October 13, 2011

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 2009 tax year. The report also provides statistical information on the 2009 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.<sup>1</sup>

- Small Business Capital Company Information Report (Form 527),
- Rural Small Business Capital Company Information Report (Form 526),
- 2009 Income Tax Returns, and
- Responses to Survey of Small Business Capital Companies and Rural Small Business Capital Companies.

## **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 taxes<sup>2</sup> 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

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<sup>1</sup> 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.

<sup>2</sup> 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.

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 2009 calendar year, a total of thirteen (13) small business capital companies reported investments in seventeen (17) small business ventures. A total of \$43,961,675 was reported as invested in these ventures by the small business capital companies. There was also reported a total of \$21,642,967 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 \$13,120,928.

A review of 2009 income tax returns filed indicates that approximately \$17,885,509 of tax credits authorized by this Act was used to reduce the tax liability of 558 income tax filers.<sup>3</sup>

A survey of small business capital companies was conducted in August of 2011 regarding investments made in 2009<sup>4</sup>. The responses to the survey reported:

- \$42,004,031 spent to acquire tangible or intangible assets, and
- 21 jobs created 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 taxes<sup>5</sup> 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

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<sup>3</sup> This report does not distinguish between 2009 credits earned and credits earned in a previous year and carried over to the 2009 tax return.

<sup>4</sup> One small business capital company, reporting investments of \$14,604,581 and potential credits of \$2,920,916 during 2009, has not responded to the survey request.

<sup>5</sup> 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.

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 2009 calendar year, a total of eight (8) rural small business capital companies reported investments in twenty-six (26) rural small business ventures. A total of \$97,357,205 was reported as invested in these ventures by the rural small business capital companies. There was also reported a total of \$40,412,050 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 \$41,330,776.

A review of 2009 income tax returns filed indicates that approximately \$43,622,682 of tax credits authorized by this Act was used to reduce the tax liability of 973 income tax filers.<sup>6</sup>

A survey of rural small business capital companies was conducted in August of 2011 regarding investments made in 2009<sup>7</sup>. The responses to the survey reported:

- \$84,086,792 spent to acquire tangible or intangible assets,
- 78 jobs created in the state,
- 22 contract jobs created in the state, and
- 474 temporary jobs created in the state.

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<sup>6</sup> This report does not distinguish between 2009 credits earned and credits earned in a previous year and carried over to the 2009 tax return.

<sup>7</sup> One rural small business capital company, reporting investments of \$22,849,000 and potential credits of \$6,854,700 during 2009, has not responded to the survey request.

## APPENDIX

### Summary Report Information by Year

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