

FIRST REGULAR SESSION

# HOUSE BILL NO. 780

## 91ST GENERAL ASSEMBLY

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INTRODUCED BY REPRESENTATIVES SCHEVE, HANAWAY, SMITH, DOLAN, LIESE, CARNAHAN,  
SHOEMYER (Co-sponsors), NAEGER, PORTWOOD, BEARDEN, LEVIN AND SCOTT.

Read 1<sup>st</sup> time February 14, 2001, and 1000 copies ordered printed.

TED WEDEL, Chief Clerk

1669L.021

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### AN ACT

To repeal sections 135.500, 135.503, 135.516, 208.770 and 620.1450, RSMo 2000, relating to tax credit programs, and to enact in lieu thereof five new sections relating to the same subject.

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*Be it enacted by the General Assembly of the state of Missouri, as follows:*

Section A. Sections 135.500, 135.503, 135.516, 208.770 and 620.1450, RSMo 2000, are  
2 repealed and five new sections enacted in lieu thereof, to be known as sections 135.500, 135.503,  
3 135.516, 208.770 and 620.1450, to read as follows:

135.500. 1. Sections 135.500 to 135.529 shall be known and may be cited as the  
2 "Missouri Certified Capital Company Law".

3 2. As used in sections 135.500 to 135.529, the following terms mean:

4 (1) "Affiliate of a certified company":

5 (a) Any person, directly or indirectly owning, controlling or holding power to vote [ten]  
6 **fifteen** percent or more of the outstanding voting securities or other ownership interests of the  
7 Missouri certified capital company;

8 (b) Any person [ten] **fifteen** percent or more of whose outstanding voting securities or  
9 other ownership interest are directly or indirectly owned, controlled or held with power to vote  
10 by the Missouri certified capital company;

11 (c) Any person directly or indirectly controlling, controlled by, or under common control  
12 with the Missouri certified capital company;

13 (d) A partnership in which the Missouri certified capital company is a general partner;

14 (e) Any person who is an officer, director or agent of the Missouri certified capital

**EXPLANATION — Matter enclosed in bold faced brackets [thus] in this bill is not enacted and is intended to be omitted in the law.**

- 15 company or an immediate family member of such officer, director or agent;
- 16 (2) "Applicable percentage", one hundred percent;
- 17 (3) "Capital in a qualified Missouri business **or qualified Missouri agricultural**
- 18 **business**", any debt, equity or hybrid security, of any nature and description whatsoever,
- 19 including a debt instrument or security which has the characteristics of debt but which provides
- 20 for conversion into equity or equity participation instruments such as options or warrants which
- 21 are acquired by a Missouri certified capital company as a result of a transfer of cash to a
- 22 business. Capital in a qualified Missouri business shall not include secured debt instruments;
- 23 (4) "Certified capital", an investment of cash by an investor in a Missouri certified
- 24 capital company;
- 25 (5) "Certified capital company", any partnership, corporation, trust or limited liability
- 26 company, whether organized on a profit or not-for-profit basis, that is located, headquartered and
- 27 registered to conduct business in Missouri that has as its primary business activity, the
- 28 investment of cash in qualified Missouri businesses, and which is certified by the department as
- 29 meeting the criteria of sections 135.500 to 135.529;
- 30 (6) "Department", the Missouri department of economic development;
- 31 (7) "Director", the director of the department of economic development or a person
- 32 acting under the supervision of the director;
- 33 (8) "Investor", any insurance company that contributes cash;
- 34 (9) "Liquidating distribution", payments to investors or to the certified capital company
- 35 from earnings;
- 36 (10) "Person", any natural person or entity, including a corporation, general or limited
- 37 partnership, trust or limited liability company;
- 38 (11) "Qualified distribution", any distribution or payment to equity holders of a certified
- 39 capital company in connection with the following:
- 40 (a) Reasonable costs and expenses of forming, syndicating, managing and operating the
- 41 certified capital company;
- 42 (b) Management fees for managing and operating the certified capital company; and
- 43 (c) Any increase in federal or state taxes, penalties and interest, including those related
- 44 to state and federal income taxes, of equity owners of a certified capital company which related
- 45 to the ownership, management or operation of a certified capital company;
- 46 (12) "Qualified investment", the investment of cash by a Missouri certified capital
- 47 company in such a manner as to acquire capital in a qualified Missouri business, **or in the case**
- 48 **of certified capital raised after August 28, 2001, a qualified Missouri agricultural business;**
- 49 (13) "Qualified Missouri agricultural business", any independently owned and
- 50 **operated business, which is headquartered and located in Missouri, and which is either:**

51           **(a) A rural agricultural business whose projects add value to agricultural products**  
52 **and aid the economy of a rural community, including any development facility as defined**  
53 **in subdivision (3) of subsection 2 of section 348.430, RSMo, and whose gross sales during**  
54 **its most recent complete fiscal year shall not have exceeded five million dollars; or**

55           **(b) Any business that is an eligible borrower as described pursuant to Section**  
56 **4279.108 of the Rural Development Instructions of the United States Department of**  
57 **Agriculture and whose gross sales during its most recent complete fiscal year shall not have**  
58 **exceeded five million dollars;**

59           ~~[(13)]~~ **(14)** "Qualified Missouri business", an independently owned and operated  
60 business, which is headquartered and located in Missouri and which is in need of venture capital  
61 and cannot obtain conventional financing. Such business shall have no more than two hundred  
62 employees, eighty percent of which are employed in Missouri. Such business shall be involved  
63 in commerce for the purpose of manufacturing, processing or assembling products, conducting  
64 research and development, or providing services in interstate commerce, but excluding retail, real  
65 estate, real estate development, insurance and professional services provided by accountants,  
66 lawyers or physicians. If such business has been in existence for three years or less, its gross  
67 sales during its most recent complete fiscal years shall not have exceeded four million dollars.  
68 If such business has been in existence for longer than three years, its gross sales during its most  
69 recent complete fiscal year shall not have exceeded three million dollars. Any business which  
70 is classified as a qualified Missouri business at the time of the first investment in such business  
71 by a Missouri certified capital company shall, for a period of seven years from the date of such  
72 first investment, remain classified as a qualified Missouri business and may receive follow-on  
73 investments from any Missouri certified capital company and such follow-on investments shall  
74 be qualified investments even though such business may not meet the other qualifications of this  
75 subsection at the time of such follow-on investments;

76           ~~[(14)]~~ **(15)** "State premium tax liability", any liability incurred by an insurance company  
77 pursuant to the provisions of section 148.320, 148.340, 148.370 or 148.376, RSMo, and any  
78 other related provisions, which may impose a tax upon the premium income of insurance  
79 companies after January 1, 1997.

135.503. 1. Any investor that makes an investment of certified capital shall, in the year  
2 of investment, earn a vested credit against state premium tax liability equal to the applicable  
3 percentage of the investor's investment of certified capital. An investor shall be entitled to take  
4 up to ten percent of the vested credit in any taxable year of the investor. Any time after three  
5 years after August 28, 1996, the director, with the approval of the commissioner of  
6 administration, may reduce the applicable percentage on a prospective basis. Any such reduction  
7 in the applicable percentage by the director shall not have any effect on credits against state

8 premium tax liability which have been claimed or will be claimed by any investor with respect  
9 to credits which have been earned and vested pursuant to an investment of certified capital prior  
10 to the effective date of any such change.

11 2. An insurance company claiming a state premium tax credit earned through an  
12 investment in a certified capital company shall not be required to pay any additional retaliatory  
13 tax levied pursuant to section 375.916, RSMo, as a result of claiming such credit.

14 3. The credit against state premium tax liability which is described in subsection 1 of this  
15 section may not exceed the state premium tax liability of the investor for any taxable year. All  
16 such credits against state premium tax liability may be carried forward indefinitely until the  
17 credits are utilized. The maximum amount of certified capital in one or more certified capital  
18 companies for which earned and vested tax credits will be allowed in any year to any one  
19 investor or its affiliates shall be limited to ten million dollars.

20 4. Except as provided in subsection 5 of this section, the aggregate amount of certified  
21 capital for which earned and vested credits against state premium tax liability are allowed for all  
22 persons pursuant to sections 135.500 to 135.529 shall not exceed the following amounts: for  
23 calendar year 1996, \$0.00; for calendar year 1997, an amount which would entitle all Missouri  
24 certified capital company investors to take aggregate credits of five million dollars; [and for any  
25 year thereafter, an additional amount to be determined by the director but not to exceed aggregate  
26 credits of ten million dollars for any year with the approval of the commissioner of  
27 administration and reported to the general assembly as provided in subsection 2 of section  
28 33.282, RSMo, provided that the amount so determined shall not impair the ability of an investor  
29 with earned and vested credits which have been allowed in previous years to take them, pursuant  
30 to subsection 1 of this section] **in calendar year 1998, an amount which would entitle all**  
31 **Missouri certified capital company investors, on an aggregate basis, to take an additional**  
32 **five million dollars in tax credits; and for calendar year 2000, an amount which would**  
33 **entitle all Missouri certified capital company investors, on an aggregate basis, to take an**  
34 **additional five million dollars in tax credits. Thereafter, the aggregate amount of earned**  
35 **and vested certified capital company credits that may be taken on an annual basis by all**  
36 **Missouri certified capital company investors shall not exceed an amount equal to ten**  
37 **percent of the cumulative credits earned in respect of certified capital invested in previous**  
38 **years.** During any calendar year in which the limitation described in this subsection will limit  
39 the amount of certified capital for which earned and vested credits against state premium tax  
40 liability are allowed, certified capital for which credits are allowed will be allocated in order of  
41 priority based upon the date of filing of information described in subdivision (1) of subsection  
42 5 of section 135.516. [Certified capital limited in any calendar year by the application of the  
43 provisions of this subsection shall be allowed and allocated in the immediately succeeding

44 calendar year in the order of priority set forth in this subsection.] The department shall make  
45 separate allocations of certified capital for which credits are allowed under the limitations  
46 described in this subsection and under the limitations described in subsection 5 of this section.

47         5. In addition to the maximum amount pursuant to subsection 4 of this section, the  
48 aggregate amount of certified capital for which earned and vested credits against state premium  
49 tax liability are allowed for persons pursuant to sections 135.500 to 135.529 shall be the  
50 following: for calendar year 1999 and for any year thereafter, an amount to be determined by the  
51 director which would entitle all Missouri certified capital company investors to take aggregate  
52 credits not to exceed four million dollars for any year with the approval of the commissioner of  
53 administration and reported to the general assembly as provided in subsection 2 of section  
54 33.282, RSMo, provided that the amount so determined shall not impair the ability of an investor  
55 with earned and vested credits which have been allowed in previous years or pursuant to the  
56 provisions of subsection 4 of this section to take them, pursuant to subsection 1 of this section.  
57 For purposes of any requirement regarding the schedule of qualified investments for certified  
58 capital for which earned and vested credits against state premium tax liability are allowed  
59 pursuant to this subsection only, the definition of a "qualified Missouri business" as set forth in  
60 subdivision [(13)] **(14)** of subsection 2 of section 135.500 means a Missouri business that is  
61 located in a distressed community as defined in section 135.530, and meets all of the  
62 requirements of subdivision [(13)] **(14)** of subsection 2 of section 135.500, except that its gross  
63 sales during its most recent complete fiscal year shall not have exceeded five million dollars.  
64 During any calendar year in which the limitation described in this subsection limits the amount  
65 of additional certified capital for which earned and vested credits against state premium tax  
66 liability are allowed, additional certified capital for which credits are allowed shall be allocated  
67 in order of priority based upon the date of filing of information described in subdivision (1) of  
68 subsection 5 of section 135.516 with respect to such additional certified capital. The department  
69 shall make separate allocations of certified capital for which credits are allowed under the  
70 limitations described in this subsection and under the limitations described in subsection 4 of this  
71 section. No limitation applicable to any certified capital company with respect to certified capital  
72 for which credits are allowed pursuant to subsection 4 of this section shall limit the amount of  
73 certified capital for which credits are allowed pursuant to this subsection. No limitation  
74 applicable to any certified capital company with respect to certified capital for which credits are  
75 allowed pursuant to this subsection shall limit the amount of certified capital for which credits  
76 are allowed pursuant to subsection 4 of this section.

77         6. The department shall advise any Missouri certified capital company, in writing, within  
78 fifteen days after receiving the filing described in subdivision (1) of subsection 5 of section  
79 135.516 whether the limitations of subsection [3] **4** of this section then in effect will be

80 applicable with respect to the investments and credits described in such filing with the  
81 department.

135.516. 1. To continue to be certified, a Missouri certified capital company shall make  
2 qualified investments according to the following schedule:

3 (1) Within two years after the date on which a Missouri certified capital company is  
4 designated as a Missouri certified capital company at least twenty-five percent of its certified  
5 capital shall be, or have been, placed in qualified investments;

6 (2) Within three years after the date on which a Missouri certified capital company is  
7 designated as a Missouri certified capital company at least forty percent of its certified capital  
8 shall be, or have been, placed in qualified investments;

9 (3) Within four years after the date on which a Missouri certified capital company is  
10 designated as a Missouri certified capital company, at least fifty percent of its total certified  
11 capital shall be, or have been, placed in qualified investments **and in the case of any certified**  
12 **capital raised after August 28, 2001, at least twenty-five percent of which in terms of**  
13 **dollars shall be, or have been, placed in qualified investments in qualified Missouri**  
14 **agricultural businesses.** A Missouri certified capital company may not make an investment in  
15 an affiliate of the certified capital company. For the purposes of this subsection, if a legal entity  
16 is not an affiliate before a certified capital company initially invests in the entity, it will not be  
17 an affiliate if a certified capital company provides additional investment in such entity  
18 subsequent to its initial investment;

19 (4) A certified capital company, at least fifteen working days prior to making what it  
20 determines to be an initial qualified investment in a specific qualified Missouri business, shall  
21 certify to the department that the company in which it proposes to invest meets the definition of  
22 a qualified Missouri business pursuant to subdivision (14) of subsection 2 of section 135.500.  
23 The certified capital company shall state the amount of capital it intends to invest and the name  
24 of the business in which it intends to invest. The certified capital company shall also provide to  
25 the department an explanation of its determination that the business meets the definition of a  
26 qualified Missouri business. If the department determines that the business does not meet the  
27 definition of a qualified Missouri business, it shall, within the fifteen-working-day period prior  
28 to the making of the proposed investment, notify the certified capital company of its  
29 determination and an explanation thereof. If the department fails to notify the certified capital  
30 company with respect to the proposed investment within the fifteen-working-day period prior  
31 to the making of the proposed investment, the company in which the certified capital company  
32 proposes to invest shall be deemed to be a qualified Missouri business. If a certified capital  
33 company fails to notify the department prior to making an initial investment in a business, the  
34 department may subsequently determine that the business in which the certified capital company

35 invested was not a qualified Missouri business even though the business, at the time of the  
36 investment, met the requirements of subdivision (14) of subsection 2 of section 135.500;

37 (5) All certified capital which is not required to be placed in qualified investments or  
38 which has been placed in qualified investments and can be received by the company, may be held  
39 or invested in such manner as the Missouri certified capital company, in its discretion, deems  
40 appropriate, **including, subject to the approval of the department upon terms and conditions**  
41 **determined by it, investments with an investor of the Missouri certified capital company**  
42 **or an affiliate or subsidiary of such investor of the Missouri certified capital company**  
43 **which is providing a guarantee, indemnity, bond, insurance policy or other guaranteed**  
44 **payment undertaking in favor of the investors that have invested certified capital in the**  
45 **Missouri certified capital company and which is rated AA or better by Standard and**  
46 **Poor's Ratings Group or the equivalent by another nationally recognized agency.** The  
47 proceeds of all certified capital which is received by a certified capital company after it was  
48 originally placed in qualified investments may be placed again in qualified investments and shall  
49 count toward any requirement in sections 135.500 to 135.529 with respect to placing certified  
50 capital in qualified investments.

51 2. A certified capital company may make qualified distributions at any time. In order  
52 to make distributions, other than qualified distributions, a certified capital company must have  
53 placed an amount cumulatively equal to one hundred percent of its certified capital in qualified  
54 investments **and, with respect to qualified investments made with certified capital raised**  
55 **after August 28, 2001, twenty-five percent of such qualified investment must be in qualified**  
56 **Missouri agricultural businesses.** Cumulative distributions to equity holders, other than  
57 qualified distributions, in excess of the certified capital company's original certified capital and  
58 any additional capital contributions to the certified capital company shall be subject to audit by  
59 a nationally recognized certified public accounting firm acceptable to the department, at the  
60 expense of the certified capital company. The audit shall determine whether aggregate  
61 cumulative distributions to all investors and equity holders, other than qualified distributions,  
62 when combined with all tax credits utilized by investors pursuant to sections 135.500 to 135.529,  
63 have resulted in an annual internal rate of return of fifteen percent computed on the sum of total  
64 original certified capital of the certified capital company and any additional capital contributions  
65 to the certified capital company. Twenty-five percent of distributions made, other than qualified  
66 distributions, in excess of the amount required to produce a fifteen percent annual internal rate  
67 of return, as determined by the audit, shall be payable by the certified capital company to the  
68 Missouri development finance board. Distributions or payments to debt holders of a certified  
69 capital company, however, may be made without restriction with respect to debt owed to them  
70 by a certified capital company. A debt holder that is also an investor or equity holder of a

71 certified capital company may receive distributions or payments with respect to such debt  
72 without restriction.

73 3. No qualified investment may be made at a cost to a Missouri certified capital company  
74 greater than fifteen percent of the total certified capital under management of the Missouri  
75 certified capital company at the time of investment.

76 4. Documents and other materials submitted by Missouri certified capital companies or  
77 by businesses for purposes of the continuance of certification may be deemed "closed records"  
78 pursuant to the provisions of section 620.014, RSMo.

79 5. Each Missouri certified capital company shall report the following to the department:

80 (1) As soon as practicable after the receipt of certified capital, the name of each investor  
81 from which the certified capital was received, the amount of each investor's investment of  
82 certified capital and tax credits computed without regard to any limitations under subsection [3]  
83 4 of section 135.503, and the date on which the certified capital was received;

84 (2) On a quarterly basis, the amount of the Missouri certified capital company's certified  
85 capital at the end of the quarter, whether or not the Missouri certified capital company has  
86 invested more than fifteen percent of the total certified capital under management in any one  
87 company, and all qualified investments that the Missouri certified capital company has made;

88 (3) Each Missouri certified capital company shall provide annual audited financial  
89 statements to the department which include an opinion of an independent certified public  
90 accountant to the department within ninety days of the close of the fiscal year. The audit shall  
91 address the methods of operation and conduct of the business of the Missouri certified capital  
92 company to determine if the Missouri certified capital company is complying with the statutes  
93 and program rules and that the funds received by the Missouri certified capital company have  
94 been invested as required within the time limits provided by sections 135.500 to 135.529.

208.770. 1. Moneys deposited in or withdrawn pursuant to subsection 1 of section  
2 208.760 from a family development account by an account holder are exempted from taxation  
3 pursuant to chapter 143, RSMo, excluding withholding tax imposed by sections 143.191 to  
4 143.265, RSMo, and chapter 147, 148 or 153, RSMo, provided, however, that any money  
5 withdrawn for an unapproved use should be subject to tax as required by law.

6 2. Interest earned by a family development account is exempted from taxation pursuant  
7 to chapter 143, RSMo.

8 3. Any funds in a family development account, including accrued interest, shall be  
9 disregarded when determining eligibility to receive, or the amount of, any public assistance or  
10 benefits.

11 4. A program contributor shall be allowed a credit against the tax imposed by chapter  
12 143, RSMo, excluding withholding tax imposed by sections 143.191 to 143.265, RSMo, and



13 chapter 147, 148 or 153, RSMo, pursuant to sections 208.750 to 208.775. Contributions up to  
14 fifty thousand dollars per program contributor are eligible for the tax credit which shall not  
15 exceed fifty percent of the contribution amount.

16 5. The department of economic development shall verify all tax credit claims by  
17 contributors. The administrator of the community-based organization, with the cooperation of  
18 the participating financial institutions, shall submit the names of contributors and the total  
19 amount each contributor contributes to a family development account reserve fund for the  
20 calendar year. The director shall determine the date by which such information shall be  
21 submitted to the department by the local administrator. The department shall submit verification  
22 of qualified tax credits pursuant to sections 208.750 to 208.775 to the department of revenue.

23 6. The total tax credits authorized pursuant to sections 208.750 to 208.775 shall not  
24 exceed [four] **two** million dollars in any fiscal year.

620.1450. The maximum amount of tax credits allowable pursuant to the provisions of  
2 the individual training account program shall not annually exceed [six] **one** million dollars.