

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1993

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HOUSE BILL 1362*

Short Title: Expand Business Tax Credit.

(Public)

Sponsors: Representatives Redwine, Baddour; Bowman, Burton, Church, Cummings, Flaherty, Gottovi, Griffin, Hall, Hensley, Hill, R. Hunter, Ives, Jeffus, Joye, Kuczmarski, McLawhorn, Miner, Mitchell, Morgan, Richardson, Smith, Spears, and Wilmoth.

Referred to: Finance.

May 12, 1993

1 A BILL TO BE ENTITLED
2 AN ACT TO EXPAND THE TAX CREDITS FOR QUALIFIED BUSINESS
3 INVESTMENTS.
4 The General Assembly of North Carolina enacts:
5 Section 1. G.S. 105-163.010 reads as rewritten:
6 "§ 105-163.010. Definitions.
7 The following definitions apply in this Division:
8 (1) Affiliate. – An individual or business that controls, is controlled by, or
9 is under common control with another individual or business.
10 (2) Business. – A corporation, partnership, association, or sole
11 proprietorship operated for profit.
12 (2a) Consideration. - Money, but not real property, securities, tangible or
13 intangible personal property, or services.
14 (3) ~~Control. – To have the power directly or indirectly to direct or cause~~
15 ~~the direction of the management or policies of a business, whether by~~
16 ~~ownership of voting securities, by contract, or otherwise. A person~~
17 controls an entity if the person owns, directly or indirectly, more than
18 ten percent (10%) of the voting securities of that entity. As used in
19 this subdivision, the term 'voting security' means a security that (i)
20 confers upon the holder the right to vote for the election of members of
21 the board of directors or similar governing body of the business or (ii)

1 is convertible into, or entitles the holder to receive upon its exercise, a
2 security that confers such a right to vote. A general partnership
3 interest is a voting security.

4 (4) Equity security. – Common stock, preferred stock, or an interest in a
5 partnership, or subordinated debt that is convertible into, or entitles the
6 holder to receive upon its exercise, common stock, preferred stock, or
7 an interest in a partnership.

8 (5) Financial institution. – A business that is (i) a bank holding company,
9 as defined in the Bank Holding Company Act of 1956, 12 U.S.C. §§
10 1841 **et seq.**, or its wholly-owned subsidiary, (ii) registered as a
11 broker-dealer under the Securities Exchange Act of 1934, 15 U.S.C. §§
12 78a **et seq.**, or its wholly-owned subsidiary, (iii) an investment
13 company as defined in the Investment Company Act of 1940, 15
14 U.S.C. §§ 80a-1 **et seq.**, whether or not it is required to register under
15 that act, (iv) a small business investment company as defined in the
16 Small Business Investment Act of 1958, 15 U.S.C. §§ 661 **et seq.**, (v)
17 a pension or profit-sharing fund or trust, or (vi) a bank, savings
18 institution, trust company, financial services company, or insurance
19 company; provided, however, that a business, other than a small
20 business investment company, is not a financial institution if its net
21 worth, when added to the net worth of all of its affiliates, is less than
22 ten million dollars (\$10,000,000); provided further, however, that a
23 business is not a financial institution if it does not generally market its
24 services to the public and it is controlled by a business that is not a
25 financial institution.

26 (6) Repealed by Session Laws 1991, c. 637.

27 (6a) North Carolina Enterprise Corporation. – A corporation established in
28 accordance with Article 3 of Chapter 53A of the General Statutes or a
29 limited partnership in which a North Carolina Enterprise Corporation
30 is the only general partner.

31 (6b) Pass-through entity. - An entity or business, including a limited
32 partnership, a general partnership, a joint venture, a Subchapter S
33 Corporation, a limited liability company, or a trust, all of which is
34 treated as owned by individuals under the federal tax laws, in which
35 the owners report their share of the income, losses, and credits from
36 the entity or business on their income tax returns filed with this State.
37 For the purpose of this Division, an owner of a pass-through entity is
38 an individual who is treated as an owner under the federal tax laws.

39 (7) Qualified business venture. – A North Carolina business that (i)
40 engages primarily in manufacturing, processing, warehousing,
41 wholesaling, research and development, or a service-related industry,
42 and (ii) is registered with the Secretary of State under G.S. 105-
43 163.013.

- 1 (8) Qualified grantee business. – A North Carolina business that (i) has
2 received during the preceding three years a grant or other funding from
3 the North Carolina Technological Development Authority, the North
4 Carolina Technological Development Authority, Inc., North Carolina
5 First Flight, Inc., the North Carolina Biotechnology Center, the
6 Microelectronics Center of North Carolina, or the Federal Small
7 Business Innovation Research Program, and (ii) is registered with the
8 Secretary of State under G.S. 105-163.013.
- 9 ~~(9) Qualified investment organization. – A business that (i) has as its~~
10 ~~primary business activity the investment in equity securities or~~
11 ~~subordinated debt of qualified business ventures or qualified grantee~~
12 ~~businesses and (ii) is registered with the Secretary of State under G.S.~~
13 ~~105-163.013.~~
- 14 (9a) Real estate-related business. – A business that is involved in or related
15 to the brokerage, selling, purchasing, leasing, operating, or managing
16 of hotels, motels, nursing homes or other lodging facilities, golf
17 courses, sports or social clubs, restaurants, storage facilities, or
18 commercial or residential lots or buildings is a real estate-related
19 business, except that a real estate-related business does not include (i)
20 a business that purchases or leases real estate from others for the
21 purpose of providing itself with facilities from which to conduct a
22 business that is not itself a real estate-related business or (ii) a business
23 that is not otherwise a real estate-related business but that leases,
24 subleases, or otherwise provides to one or more other persons a
25 number of square feet of space which in the aggregate does not exceed
26 fifty percent (50%) of the number of square feet of space occupied by
27 the business for its other activities.
- 28 (9b) Selling or leasing at retail. – A business is selling or leasing at retail if
29 the business either (i) sells or leases any product or service of any
30 nature from a store or other location open to the public generally or (ii)
31 sells or leases products or services of any nature by means other than
32 to or through one or more other businesses.
- 33 (9c) Service-related industry. – A business is engaged in a service-related
34 industry, whether or not it also sells a product, if it provides services to
35 customers or clients and does not as a substantial part of its business
36 engage in a business described in G.S. 105-163.013(b)(4). A business
37 is engaged as a substantial part of its business in an activity described
38 in G.S. 105-163.013(b)(4) if (i) its gross revenues derived from all
39 activities described in that subdivision exceed twenty-five percent
40 (25%) of its gross revenues in any fiscal year or (ii) it is established as
41 one of its primary purposes to engage in any activities described in that
42 subdivision, whether or not its purposes were stated in its articles of
43 incorporation or similar organization documents.

1 (10) Security. – A security as defined in Section 2(1) of the Securities Act
2 of 1933, 15 U.S.C. § 77b(1).

3 (11) Subordinated debt. – Indebtedness that (i) by its terms matures five or
4 more years after its issuance, (ii) is not secured, and (iii) is
5 subordinated to all other indebtedness of the issuer issued or to be
6 issued to a financial institution other than a financial institution
7 described in subdivisions (5)(ii) through (5)(v) of this section. Any
8 portion of indebtedness that matures earlier than five years after its
9 issuance is not subordinated debt."

10 Sec. 2. G.S. 105-163.011 reads as rewritten:

11 **"§ 105-163.011. Tax credits allowed.**

12 (a) Corporations. – Subject to the limitations contained in G.S. 105-163.012, a
13 corporation that ~~invests in~~ purchases for consideration the equity securities of a North
14 Carolina Enterprise Corporation or a qualified investment organization directly from the
15 entity is allowed as a credit against the income tax imposed by Division I of this Article, the
16 franchise tax imposed by G.S. 105-116, 105-120.2, and 105-122, or the gross premiums tax
17 imposed by G.S. 105-228.5 and G.S. 105-228.8 for the taxable year an amount equal to
18 twenty-five percent (25%) of the amount of consideration ~~invested or seven hundred fifty~~
19 ~~thousand dollars (\$750,000), whichever is less.~~ invested. The aggregate amount of credit
20 allowed a corporation for one or more investments in a single taxable year under this
21 Division, whether directly or indirectly as owner of a pass-through entity, may not
22 exceed seven hundred fifty thousand dollars (\$750,000). The credit is allowed against
23 one or more of the following taxes:

24 (1) The income tax imposed by Division I of this Article.

25 (2) The franchise tax imposed by G.S. 105-116, 105-120.2, and 105-122.

26 (3) The gross premiums tax imposed by G.S. 105-228.5 and G.S. 105-
27 228.8.

28 The credit may not be taken for the year in which the investment is made but shall
29 be taken for the taxable year beginning during the calendar year ~~following the calendar~~
30 ~~year in which the investment was made.~~ in which the application for the credit becomes
31 effective as provided in subsection (c) of this section. This section does not apply to
32 a corporation that is also a pass-through entity.

33 (b) Individuals. – Subject to the limitations contained in G.S. 105-163.012, an
34 individual who ~~invests in~~ purchases for consideration the equity securities or
35 subordinated debt of (i) ~~a qualified investment organization,~~ (ii) ~~a qualified business~~
36 ~~venture,~~ ~~(iii)~~ (ii) a qualified grantee business, or ~~(iv)~~ (iii) a North Carolina Enterprise
37 Corporation directly from that entity is allowed as a credit against the tax imposed by
38 Division II of this Article for the taxable year an amount equal to twenty-five percent
39 (25%) of the amount of consideration ~~invested or one hundred thousand dollars (\$100,000),~~
40 ~~whichever is less.~~ invested. The aggregate amount of credit allowed an individual for one
41 or more investments in a single taxable year under this Division, whether directly or
42 indirectly as owner of a pass-through entity, may not exceed fifty thousand dollars
43 (\$50,000). The credit may not be taken for the year in which the investment is made but
44 shall be taken for the taxable year beginning during the calendar year ~~following the~~

1 ~~calendar year in which the investment was made.~~ in which the application for the credit
2 becomes effective as provided in subsection (c) of this section.

3 (b1) Pass-Through Entities. – Subject to the limitations provided in G.S. 105-
4 163.012, a pass-through entity that purchases for consideration (i) the equity securities
5 or subordinated debt of a qualified grantee business or of a qualified business venture
6 directly from that entity or (ii) the equity securities of a North Carolina Enterprise
7 Corporation directly from that entity is eligible for a tax credit equal to twenty-five
8 percent (25%) of the amount of consideration invested. The aggregate amount of credit
9 allowed a pass-through entity for one or more investments in a single taxable year under
10 this Division, whether directly or indirectly as owner of another pass-through entity,
11 may not exceed seven hundred fifty thousand dollars (\$750,000). The pass-through
12 entity is not eligible for the credit for the year in which the investment by the pass-
13 through entity is made but shall be eligible for the credit for the taxable year beginning
14 during the calendar year in which the application for the credit becomes effective as
15 provided in subsection (c) of this section.

16 Each individual who is an owner of a pass-through entity is allowed as a credit
17 against the tax imposed by Division II of this Article for the taxable year an amount
18 equal to the owner's allocated share of the credits for which the pass-through entity is
19 eligible under this subsection. The aggregate amount of credit allowed an individual for
20 one or more investments in a single taxable year under this Division, whether directly or
21 indirectly as owner of a pass-through entity, may not exceed fifty thousand dollars
22 (\$50,000).

23 Each corporation that is an owner of a pass-through entity is allowed as a credit for
24 the taxable year an amount equal to the corporation's allocated share of the tax credits
25 for which the pass-through entity is eligible under this subsection as a result of the pass-
26 through entity's investment in equity securities of a North Carolina Enterprise
27 Corporation. The credit is allowed against one or more of the following taxes:

28 (1) The income tax imposed by Division I of this Article.

29 (2) The franchise tax imposed by G.S. 105-116, 105-120.2, and 105-122.

30 (3) The gross premiums tax imposed by G.S. 105-228.5 and G.S. 105-
31 228.8.

32 The aggregate amount of credit allowed a corporation for one or more investments
33 in a single taxable year under this Division, whether directly or indirectly as owner of a
34 pass-through entity, may not exceed seven hundred fifty thousand dollars (\$750,000).

35 If an owner's share of the pass-through entity's credit is limited due to the maximum
36 allowable credit under this section for a taxable year or if a corporate owner is not
37 eligible for the credit because the investment was not made in a North Carolina
38 Enterprise Corporation, the pass-through entity and its owners may not reallocate the
39 unused credit among the other owners.

40 (c) Application. – To be eligible for the tax credit provided in this section, the
41 taxpayer must file an application for the credit with the Secretary of Revenue on or
42 before April 15 of the year following the calendar year in which the investment was
43 made. The Secretary may grant extensions of this deadline, as the Secretary finds
44 appropriate, upon the request of the taxpayer, except that the application may not be

1 filed after September 15 of the year following the calendar year in which the investment
2 was made. An application is effective for the year in which it is timely filed. The
3 application shall be on a form prescribed by the Secretary and shall include any
4 supporting documentation that the Secretary may require. The application for a credit
5 for an investment made by a pass-through entity must be filed by the pass-through
6 entity.

7 (d) Penalties. – The penalties provided in G.S. 105-236 apply in this Division."

8 Sec. 3. G.S. 105-163.012 reads as rewritten:

9 **"§ 105-163.012. Limit; carry-over; ~~ceiling~~-ceiling; reduction in basis.**

10 (a) The credit allowed a taxpayer under G.S. 105-163.011 may not exceed the
11 amount of income tax imposed by Division I or II of this Article, the amount of
12 franchise tax imposed by Article 3 of this Chapter, or the amount of gross premiums tax
13 imposed by Article 8B of this Chapter, as appropriate, for the taxable year reduced by
14 the sum of all other credits allowable except tax payments made by or on behalf of the
15 taxpayer. The amount of unused credit allowed under G.S. 105-163.011 may be carried
16 forward for the next five succeeding years. The fifty thousand dollar (\$50,000) and
17 seven hundred fifty thousand dollar (\$750,000) limitations on the amount of credit
18 allowed a taxpayer under G.S. 105-163.011 do not apply to unused amounts carried
19 forward under this subsection.

20 (b) The total amount of all tax credits allowed to taxpayers under G.S. 105-
21 163.011 for investments made in a calendar year may not exceed twelve million dollars
22 (\$12,000,000). The Secretary of Revenue shall calculate the total amount of tax credits
23 claimed from the applications filed pursuant to G.S. 105-163.011(c). If the total amount
24 of tax credits claimed for investments made in a calendar year exceeds twelve million
25 dollars (\$12,000,000), the Secretary shall allow a portion of the credits claimed on the
26 following basis:

27 (1) A total of six million dollars (\$6,000,000) in tax credits for
28 investments in North Carolina Enterprise Corporations shall be
29 allocated among all taxpayers claiming the credits in proportion to the
30 size of the credit claimed by each taxpayer.

31 (2) A total of six million dollars (\$6,000,000) in tax credits for
32 investments in qualified ~~investment organizations, qualified business~~
33 ~~ventures, business ventures~~ and qualified grantee businesses shall be
34 allocated among all taxpayers claiming the credits in proportion to the
35 size of the credit claimed by each taxpayer.

36 (3) If the total amount of the credits claimed by taxpayers for the
37 investments described in either subdivision (1) or (2) is less than six
38 million dollars (\$6,000,000), the Secretary shall allow additional
39 credits for the investments described in the other subdivision until the
40 total amount of all tax credits allowed equals twelve million dollars
41 (\$12,000,000).

42 (c) If a credit claimed under G.S. 105-163.011 is reduced as provided in this
43 section, the Secretary shall notify the taxpayer of the amount of the reduction of the
44 credit on or before December 31 of the year following the calendar year in which the

1 investment was made. The Secretary's allocations based on applications filed pursuant
2 to G.S. 105-163.011(c) are final and shall not be adjusted to account for credits applied
3 for but not claimed.

4 (d) For purposes of this Article, the taxpayer's basis in the equity securities or
5 subordinated debt acquired as a result of an investment in a North Carolina Enterprise
6 Corporation, qualified business venture, or qualified grantee business shall be reduced
7 by the amount of allowable credit. 'Allowable credit' means the amount of credit
8 allowed under G.S. 105-163.011 reduced as provided in subsection (c) of this section.'

9 Sec. 4. G.S. 105-163.013 reads as rewritten:

10 **"§ 105-163.013. Registration.**

11 ~~(a) Qualified Investment Organizations. — In order to qualify as a qualified~~
12 ~~investment organization under this Division, a business must be registered with the~~
13 ~~Securities Division of the Department of the Secretary of State. To register, the~~
14 ~~business must file with the Secretary of State an application in which the business~~
15 ~~certifies the following facts:~~

- 16 ~~(1) It intends to invest at least seventy percent (70%) of its capital in~~
17 ~~equity securities or subordinated debt of qualified business ventures or~~
18 ~~qualified grantee businesses;~~
- 19 ~~(2) It has an initial capitalization of at least five million dollars~~
20 ~~(\$5,000,000), of which no more than two million dollars (\$2,000,000)~~
21 ~~is to be contributed pursuant to binding commitments;~~
- 22 ~~(3) It does not own the securities of any business for the purpose of~~
23 ~~operating the business or for any purpose other than as an investment~~
24 ~~for future sale;~~
- 25 ~~(4) It is controlled by a financial institution or is not controlled by another~~
26 ~~business; and~~
- 27 ~~(5) It was not organized to invest in only one business or one group of~~
28 ~~businesses that conduct the same or a similar type of business activity.~~

29 ~~To remain qualified as a qualified investment organization under this Division, the~~
30 ~~business must renew its registration annually as prescribed by rule by filing an~~
31 ~~application for renewal in which the business certifies the facts required in the original~~
32 ~~application and describes its investments in qualified business ventures and qualified~~
33 ~~grantee businesses. Upon termination of the qualified investment organization, it shall~~
34 ~~file a final report describing its investments in qualified business ventures and qualified~~
35 ~~grantee businesses and certifying that it invested at least seventy percent (70%) of its~~
36 ~~capital in equity securities or subordinated debt of such businesses.~~

37 ~~If a qualified business venture in which the qualified investment organization has~~
38 ~~invested fails to file an application for renewal of registration under subsection (b) of~~
39 ~~this section or if the registration of the qualified business venture is revoked by the~~
40 ~~Secretary of State, any investment by the qualified investment organization in the~~
41 ~~business venture within five years after the qualified investment organization's initial~~
42 ~~investment in the business venture is, for the purpose of this Division, an investment in~~
43 ~~a qualified business venture.~~

1 (b) Qualified Business Ventures. – In order to qualify as a qualified business
2 venture under this Division, a business must be registered with the Securities Division
3 of the Department of the Secretary of State. To register, the business must file with the
4 Secretary of State ~~a financial statement certified by an independent certified public accountant~~
5 ~~for its most recent fiscal year showing revenues, as determined in accordance with generally~~
6 ~~accepted accounting procedures, of five million dollars (\$5,000,000) or less on a consolidated~~
7 ~~basis and an application in which it certifies the following facts: an application and any~~
8 supporting documents the Secretary of State may require from time to time to determine
9 that the business meets the requirements for registration as a qualified business venture.
10 A business meets the requirements for registration as a qualified business venture if all
11 of the following are true as of the date the business files the required application:

12 (1) Its headquarters and principal business operations are in North
13 Carolina or it has, as a condition ~~of an investment eligible for a credit~~
14 ~~under this Division, to approval of the registration,~~ agreed to establish
15 its headquarters and principal business operations in North Carolina
16 within three months after the investment is made; the date the first
17 investment eligible for a credit under this Division is made.

18 (1b) Either (i) it was organized after January 1 of the calendar year in which
19 its application is filed or (ii) during its most recent fiscal year before
20 filing the application, it had gross revenues, as determined in
21 accordance with generally accepted accounting procedures, of five
22 million dollars (\$5,000,000) or less on a consolidated basis.

23 (2) It has, as a condition ~~of an investment eligible for a credit under this~~
24 ~~Division, to approval of the registration,~~ agreed to retain its
25 headquarters and principal business operations in North Carolina for at
26 least three years after the investment is made; date the last investment
27 eligible for credit under this Division is made.

28 (3) It is organized to engage primarily in manufacturing, processing,
29 warehousing, wholesaling, research and development, or a service-
30 related ~~industry; and industry.~~

31 (4) It does not engage as a substantial part of its business in ~~construction,~~
32 ~~contracting, selling goods at retail, or the~~ any of the following:

33 a. A real estate-related activity.

34 b. Providing a professional service as defined in Chapter 55B of
35 the General Statutes.

36 c. Construction or contracting.

37 d. Selling or leasing at retail.

38 e. The purchase, sale, or development, or purchasing, selling, or
39 holding for investment of commercial paper, notes, other
40 indebtedness, financial instruments, securities, or real property,
41 or otherwise make investments.

42 f. Providing personal grooming or cosmetics services.

1 g. Offering any form of entertainment, amusement, recreation, or
2 athletic or fitness activity for which an admission or a
3 membership is charged.

4 (5) It was not formed for the primary purpose of acquiring all or part of
5 the stock or assets of one or more existing businesses.

6 The effective date of registration for a qualified business venture whose application
7 is accepted for registration is the filing date of its application. No credit is allowed
8 under this Division for an investment made before the effective date of the registration
9 or after the registration is revoked.

10 To remain qualified as a qualified business venture, the business must renew its
11 registration annually as prescribed by rule by filing a financial statement for the most
12 recent fiscal year showing gross revenues, as determined in accordance with generally
13 accepted accounting procedures, of five million dollars (\$5,000,000) or less on a
14 consolidated basis and an application for renewal in which the business certifies the
15 facts required in the original application and that it has not moved its headquarters or
16 principal business operations out of North Carolina.

17 Failure of a qualified business venture to renew its registration by the applicable
18 deadline shall result in revocation of its registration effective as of the next day after the
19 renewal deadline, but shall not result in forfeiture of tax credits previously allowed to
20 taxpayers who invested in the business except as provided in G.S. 105-163.014. The
21 Secretary of State shall send the qualified business venture notice of revocation within
22 60 days after the renewal deadline. A qualified business venture may apply to have its
23 registration reinstated by the Secretary of State by filing an application for
24 reinstatement, accompanied by the reinstatement application fee and a late filing penalty
25 of one thousand dollars (\$1,000), within 30 days after receipt of the revocation notice
26 from the Secretary of State. A business that seeks approval of a new application for
27 registration after its registration has been revoked must also pay a penalty of one
28 thousand dollars (\$1,000). A registration that has been reinstated is treated as if it had
29 not been revoked.

30 If the gross revenues of a qualified business venture exceed five million dollars
31 (\$5,000,000) in a fiscal year, the business must notify the Secretary of State in writing
32 of this fact by filing a financial statement showing the revenues of the business for that
33 year.

34 (c) Qualified Grantee Businesses. – In order to qualify as a qualified grantee
35 business under this Division, a business must be registered with the Securities Division
36 of the Department of the Secretary of State. To register, the business must file with the
37 Secretary of State an application ~~in which the business certifies the following facts: and any~~
38 supporting documents the Secretary of State may require from time to time to determine
39 that the business meets the requirements for registration as a qualified grantee business.
40 A business meets the requirements for registration as a qualified grantee business if all
41 of the following are true as of the date the business files the required application:

42 (1) Its headquarters and principal business operations are in North
43 Carolina or it has, as a condition ~~of an investment eligible for a credit~~
44 under this Division, to approval of the registration, agreed to establish

1 its headquarters and principal business operations in North Carolina
2 within three months after the date the first investment is made; eligible
3 for a credit under this Division is made.

4 (2) It has, as a condition ~~of an investment eligible for a credit under this~~
5 ~~Division,~~ to approval of the registration, agreed to retain its
6 headquarters and principal business operations in North Carolina for at
7 least three years after the date the last investment is made; and eligible
8 for a credit under this Division is made.

9 (3) It has received during the preceding three years a grant or other
10 funding from the North Carolina Technological Development
11 Authority, the North Carolina Technological Development Authority,
12 Inc., North Carolina First Flight, Inc., the North Carolina
13 Biotechnology Center, the Microelectronics Center of North Carolina,
14 or the Federal Small Business Innovation Research Program.

15 The effective date of registration for a qualified grantee business whose application
16 is accepted for registration is the filing date of its application. No credit is allowed
17 under this Division for an investment made before the effective date of the registration
18 or after the registration is revoked.

19 To remain qualified as a qualified grantee business, the business must renew its
20 registration annually as prescribed by rule by filing an application for renewal in which
21 the business certifies the facts listed in this subsection.

22 (d) Application Forms; Rules; Fees. – Applications for ~~registration and for~~
23 registration, renewal of registration, and reinstatement of registration under this section
24 shall be in ~~such form as the form required by the Secretary of State may prescribe.~~ State.
25 The Secretary may, by rule, require applicants to furnish supporting information in
26 addition to the information required by subsections (a), (b), and (c) of this section. The
27 Secretary may adopt rules in accordance with Chapter 150B of the General Statutes that
28 are needed to carry out the Secretary's responsibilities under this Division. The
29 Secretary shall prepare blank forms for the applications and shall distribute them
30 throughout the State and furnish them on request. Each application shall be signed by
31 the owners of the business or, in the case of a corporation, by its president, vice-
32 president, treasurer, or secretary. There shall be annexed to the application the
33 affirmation of the person making the application in the following form: 'Under
34 penalties prescribed by law, I certify and affirm that to the best of my knowledge and
35 belief this application is true and complete.'

36 The fee for filing an application for registration under this section shall be one
37 hundred dollars (\$100.00). The fee for filing an application for renewal of registration
38 under this section shall be fifty dollars (\$50.00). The fee for filing an application for
39 reinstatement of registration under this section shall be fifty dollars (\$50.00).

40 (e) Revocation of Registration. – If the Securities Division of the Department of
41 the Secretary of State finds that any of the information contained in an application of a
42 business registered under this section is false, it shall revoke the registration of the
43 business. The Secretary of State shall not revoke the registration of a business solely

1 because it ceases business operations for an indefinite period of time, as long as the
2 business renews its registration each year as required under G.S. 105-163.013.

3 (f) Transfer of Registration. – A registration as a qualified business venture or
4 qualified grantee business may not be sold or otherwise transferred, except that if a
5 qualified business venture or qualified grantee business enters into a merger,
6 consolidation, or other similar transaction with another business and the surviving
7 corporation would otherwise meet the criteria for being a qualified business venture or
8 qualified grantee business, the surviving company retains the registration without
9 further application to the Secretary of State. In such a case, the qualified business
10 venture or qualified grantee business shall provide the Secretary of State with written
11 notice of the merger, consolidation, or similar transaction and the name, address, and
12 jurisdiction of incorporation of the surviving company."

13 Sec. 5. G.S. 105-163.014 reads as rewritten:

14 **"§ 105-163.014. Forfeiture of credit.**

15 ~~If a qualified investment organization fails to file an application for renewal of~~
16 ~~registration under G.S. 105-163.013 or if its registration is revoked by the Secretary of~~
17 ~~State, every taxpayer who has received a tax credit under this Division for an~~
18 ~~investment in the organization made during the preceding five years forfeits the credit.~~

19 (a) Participation in Business. – A taxpayer who has received a tax credit under
20 this Division for an investment in a qualified business venture or qualified grantee
21 business forfeits the credit if, within three years after the investment was made, (i) ~~he the~~
22 taxpayer participates in the operation of the qualified business venture or qualified
23 grantee business, (ii) ~~except as provided in the following paragraph, the qualified business~~
24 venture or qualified grantee business fails to file an application for renewal of registration
25 under G.S. 105-163.013, or (iii) the registration of the qualified business venture or qualified
26 grantee business is revoked by the Secretary of State. ~~business.~~ For the purpose of this
27 section, a taxpayer participates in the operation of a qualified business venture or a
28 qualified grantee business if the taxpayer, ~~his the taxpayer's~~ spouse, parent, sibling, or
29 child, or an employee of any of these individuals or of a business controlled by any of
30 these individuals, provides services of any nature to the qualified business venture or
31 qualified grantee business for compensation, whether as an employee, a contractor, or
32 otherwise. However, a person who ~~serves as a~~ provides services to a qualified business
33 venture or a qualified grantee business, whether as an officer, a member of the board of
34 directors of a business ~~directors,~~ or otherwise does not participate in its operation if he
35 performs only the functions ordinarily performed by directors and ~~the person~~ receives as
36 compensation only reasonable reimbursement of expenses incurred in ~~serving as a~~
37 director. A person who owns stock in a business does not participate in its operation if he
38 performs only the functions ordinarily performed by shareholders. ~~providing the services,~~
39 participation in a stock option or stock bonus plan, or both.

40 (b) False Application. – A taxpayer who has received a credit under this Division
41 for an investment in a qualified business venture ~~does not forfeit~~ or a qualified grantee
42 business forfeits the credit if the business is unable to renew its registration solely for the
43 reason that in its most recent fiscal year, its revenues exceeded five million dollars
44 (\$5,000,000). ~~registration of the qualified business venture or qualified grantee business~~

1 is revoked because information in the registration application was false at the time the
2 application was filed with the Secretary of State.

3 (c) Location Out-of-State. – A taxpayer who has received a credit under this
4 Division for an investment in a qualified business venture or a qualified grantee
5 business does not forfeit the credit if the business is ~~unable~~ fails to renew its registration
6 solely for the reason that its receipt of the grant or funding referred to in G.S. 105-
7 163.013(e)(3) occurred more than three years prior to the date on which the business would
8 have been required to renew its registration. registration, except that a taxpayer forfeits the
9 credit if the qualified business venture (i) moves its headquarters or its principal
10 business operations outside this State within three years after the date of the taxpayer's
11 investment or (ii) in the case of a business that promised to move its headquarters and
12 principal business operations to this State as a condition to approval of its registration,
13 fails to comply with this condition.

14 (d) Transfer or Redemption of Investment. – A taxpayer who has received a
15 credit under this Division for an investment in a North Carolina Enterprise Corporation,
16 a qualified business venture, or a qualified grantee business forfeits the credit in the
17 following cases:

18 (1) Within one year after the investment was made, the taxpayer transfers
19 any of the securities received in the investment that qualified for the
20 tax credit to another person or entity, other than in a transfer resulting
21 from one of the following:

22 a. The death of the taxpayer.

23 b. A final distribution in liquidation to the owners of a taxpayer
24 that is a corporation or other entity.

25 c. A merger, consolidation, or similar transaction requiring
26 approval by the shareholders of the North Carolina Enterprise
27 Corporation, qualified business venture, or qualified grantee
28 business under applicable State law, to the extent the taxpayer
29 does not receive cash or tangible property in the merger,
30 consolidation, or other similar transaction.

31 (2) Within five years after the investment was made, the North Carolina
32 Enterprise Corporation, qualified business venture, or qualified grantee
33 business in which the investment was made makes a redemption with
34 respect to the securities received in the investment.

35 In the event the taxpayer transfers fewer than all the securities in a manner that
36 would result in a forfeiture, the amount of the credit that is forfeited is the product
37 obtained by multiplying the aggregate credit attributable to the investment by a fraction
38 whose numerator equals the number of securities transferred and whose denominator
39 equals the number of securities received on account of the investment to which the
40 credit was attributable. In addition, if the redemption amount is less than the amount of
41 consideration invested by the taxpayer in the securities to which the redemption is
42 attributable, the amount of the credit that is forfeited is further reduced by multiplying it
43 by a fraction whose numerator equals the redemption amount and whose denominator
44 equals the aggregate consideration invested by the taxpayer in the securities involved in

1 the redemption. The term 'redemption amount' means all amounts paid that are treated
2 as a distribution in part or full payment in exchange for securities under section 302(a)
3 of the Code.

4 (e) Effect of Forfeiture. — A taxpayer who forfeits a credit under this section is
5 liable for all past taxes avoided as a result of the credit plus interest at the rate
6 established under G.S. 105-241.1(i), computed from the date the taxes would have been
7 due if the credit had not been allowed. The past taxes and interest are due 30 days after
8 the date the credit is forfeited; a taxpayer who fails to pay the past taxes and interest by
9 the due date is subject to the penalties provided in G.S. 105-236."

10 Sec. 6. This act becomes effective for taxable years beginning on or after
11 January 1, 1993, and applies to investments made and qualified businesses registered or
12 renewed on or after July 1, 1993. A business registered as a qualified business venture
13 or a qualified grantee business before July 1, 1993, retains its registration until the
14 renewal date for the registration of that business under Division V of Article 4 of
15 Chapter 105 of the General Statutes as in effect before July 1, 1993. The Secretary of
16 State shall not grant renewal of a registration as a qualified business venture or a
17 qualified grantee business unless at the time of filing the renewal application, the
18 business meets the requirements then in effect for a new registration; however, a
19 taxpayer shall not forfeit a credit under Division V of Article 4 of Chapter 105 of the
20 General Statutes for an investment made before July 1, 1993, solely because of the
21 amendments made by this act. The Secretary of State may require a qualified business
22 venture or a qualified grantee business that is unable to renew its registration after July
23 1, 1993, to file reports the Secretary of State considers appropriate to determine the
24 location of the headquarters and principal business operations of the business until three
25 years after the date of the last investment in business that qualified for the tax credit
26 allowed under Division V of Article 4 of Chapter 105 of the General Statutes.