

STATE OF OKLAHOMA

2nd Session of the 58th Legislature (2022)

HOUSE BILL 4085

By: Wallace

AS INTRODUCED

An Act relating to revenue and taxation; creating the Oklahoma Rural Jobs Act; defining terms; establishing requirements; establishing application process; providing for a tax credit; establishing an authorization amount limit; establishing investment requirements; allowing for lapse in certification creating a credit; allowing for transfer of credit; allowing for recapturing of credits; determining how recaptured credits are to be allocated; creating a program exit process; creating ownership limitations; creating reporting requirements; establishing a sunset date; providing for codification; and providing an effective date.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 3930 of Title 68, unless there is created a duplication in numbering, reads as follows:

This act shall be known and may be cited as the "Oklahoma Rural Jobs Act".

SECTION 2. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 3931 of Title 68, unless there is created a duplication in numbering, reads as follows:

As used in this act:

1. "Affiliate" means an entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under the common control with another entity. An entity is controlled by another entity if the controlling entity holds, directly or indirectly, the majority of voting or ownership interest in the controlled entity or has control over day-to-day operations of the controlled entity by contract or by law;

2. "Applicable percentage" means zero percent (0%) for the first two credit allowance dates, and fifteen percent (15%) for the next four credit allowance dates;

3. "Capital investment" means any equity investment in a rural fund by a rural investor which:

- a. is acquired after the effective date of this act at its original issuance solely in exchange for cash,
- b. has one hundred percent (100%) of its cash purchase price used by the rural fund to make qualified investments in eligible businesses located in this state by the third anniversary of the initial credit allowance date, and
- c. is designated by the rural fund as a capital investment under this act and is certified by the Department under the provisions of Section 3 of this act. This shall include any capital investment that

1 does not meet the provisions of paragraph 1 of  
2 subsection A of Section 3 of this act, if such  
3 investment was a capital investment in the hands of a  
4 prior holder;

5 4. "Credit allowance date" means the date on which the  
6 Department certifies a rural fund's capital investment and each of  
7 the five anniversary dates of such date thereafter;

8 5. "Department" means the Oklahoma Department of Commerce;

9 6. "Eligible business" means a business that, at the time of  
10 the initial qualified investment in the business:

11 a. has fewer than two hundred fifty (250) employees, and

12 b. has its principal business operations in the state.

13 Any business which is classified as an eligible business at the  
14 time of the initial investment in such business by a rural fund  
15 shall remain classified as an eligible business and may receive  
16 follow-on investments from any rural fund, and such follow-on  
17 investments shall be qualified investments even though such business  
18 may not meet the definition of an eligible business at the time of  
19 such follow-on investment;

20 7. "Principal business operations" means the location where at  
21 least sixty percent (60%) of a business's employees work or where  
22 employees who are paid at least sixty percent (60%) of such  
23 business's payroll work. A business that has agreed to relocate  
24 employees using the proceeds of a qualified investment to establish

1 its principal business operations in a new location shall be deemed  
2 to have its principal business operations in such new location if it  
3 satisfied the requirements of this paragraph no later than one  
4 hundred eighty (180) days after receiving a qualified investment;

5 8. "Purchase price" means the amount paid to the rural fund  
6 that issues a capital investment which shall not exceed the amount  
7 of capital investment authority certified under the provisions of  
8 Section 3 of this act;

9 9. "Qualified investment" means any investment in an eligible  
10 business or any loan to an eligible business with a stated maturity  
11 date of at least one (1) year after the date of issuance, excluding  
12 revolving lines of credit and senior-secured debt unless the chief  
13 executive or similar officer of the eligible business certifies that  
14 the eligible business sought and was denied similar financing from a  
15 depository institution, by a rural fund; provided that, with respect  
16 to any one eligible business, the maximum amount of investments made  
17 in such business by one or more rural funds, on a collective basis  
18 with all of the businesses' affiliates, with the proceeds of the  
19 capital investments shall be the greater of twenty percent (20%) of  
20 the rural fund's capital investment authority or Six Million Five  
21 Hundred Thousand Dollars (\$6,500,000.00), exclusive of investments  
22 made with repaid or redeemed investments or interest or profits  
23 realized thereon;

1        10. "Rural area" means any county of this state that has a  
2 population of less than seventy-five thousand (75,000) or any city  
3 or town of this state that has a population not to exceed seven  
4 thousand (7,000) according to the 2020 Federal Decennial Census of  
5 the United States;

6        11. "Rural fund" means an entity certified by the Department  
7 under the provisions of Section 3 of this act;

8        12. "Rural investor" means an entity that makes a capital  
9 investment in a rural fund;

10       13. "Senior-secured debt" means any loan that is secured by a  
11 first mortgage on real estate with a loan-to-value ratio of less  
12 than eighty percent (80%); and

13       14. "State tax liability" means any liability incurred by any  
14 entity subject to the state income tax imposed under Title 68 of the  
15 Oklahoma Statutes or an insurance company paying an annual tax on  
16 its gross premium receipts, including retaliatory tax, or other  
17 financial institution paying taxes to the state or any political  
18 subdivision of the state under provisions of Title 68 or Title 19 of  
19 the Oklahoma Statutes or an express company which pays an annual tax  
20 on its gross receipts in the state.

21       SECTION 3.       NEW LAW       A new section of law to be codified  
22 in the Oklahoma Statutes as Section 3932 of Title 68, unless there  
23 is created a duplication in numbering, reads as follows:

1       A. A rural fund that seeks to have an equity investment  
2 certified as a capital investment eligible for credits authorized  
3 under the provisions of this act shall apply to the Department. The  
4 Department shall begin accepting applications within ninety (90)  
5 days of the effective date of this act. The application shall  
6 include:

7       1. The amount of capital investment requested;

8       2. A copy of the applicant's or an affiliate of the applicant's  
9 licenses as a rural business investment company under 7 U.S.C.,  
10 Section 2009cc or as a small business investment company under 15  
11 U.S.C., Section 681, and a certificate executed by an executive  
12 officer of the applicant attesting that such license remains in  
13 effect and has not been revoked;

14       3. Evidence that, as of the date the application is submitted,  
15 the applicant or affiliates of the applicant have invested at least  
16 One Hundred Million Dollars (\$100,000,000.00) in nonpublic companies  
17 located in counties within the United States with a population of  
18 less than seventy-five thousand (75,000) according to the 2010  
19 Federal Decennial Census of the United States;

20       4. A business plan that includes a revenue-impact assessment  
21 projecting state and local tax revenue to be generated by the  
22 applicant's proposed qualified investments, prepared by a nationally  
23 recognized, third-party, independent economic forecasting firm using  
24 a dynamic economic forecasting model that analyzes the applicant's

1 business plan over the ten (10) years following the date the  
2 application is submitted to the Department. Such plan shall include  
3 an estimate of the number of jobs created and jobs retained in this  
4 state as a result of the applicant's qualified investments; and

5 5. A nonrefundable application fee of Five Thousand Dollars  
6 (\$5,000.00) payable to the Department.

7 B. Within thirty (30) days after the receipt of a completed  
8 application, the Department shall grant or deny the application in  
9 full or in part. The Department shall deny the application if:

10 1. The applicant does not satisfy all the criteria provided  
11 under subsection A of this section;

12 2. The revenue-impact assessment submitted with the application  
13 does not demonstrate that the applicant's business plan will result  
14 in a positive fiscal impact on the state over a ten-year period that  
15 exceeds the cumulative amount of tax credits that would be issued to  
16 the applicant if the application was approved; or

17 3. The Department has already approved the maximum amount of  
18 capital investment authority under Section 4 of this act.

19 C. If the Department denies any part of the application, it  
20 shall inform the applicant of the grounds for such denial. If the  
21 applicant provides any additional information required by the  
22 Department or otherwise completes its application within fifteen  
23 (15) days of the notice of denial, the application shall be  
24 considered complete as of the original date of submission. If the

1 applicant fails to provide the information or fails to complete its  
2 application within the fifteen-day period, the application shall  
3 remain denied and must be resubmitted with a new submission date and  
4 a new application fee.

5 D. Upon approval of an application, the Department shall  
6 certify the proposed equity investment as a capital investment  
7 eligible for credits under this act, subject to limitations laid out  
8 in Section 4 of this act. The Department shall provide written  
9 notice of the certification to the applicant which shall include the  
10 amount of the applicant's capital investment authority. The  
11 Department shall certify capital investments in the order that the  
12 application is received by the Department. Applications received on  
13 the same day shall be deemed to have been received simultaneously.  
14 For applications that are complete and received on the same day, the  
15 Department shall certify applications in proportionate percentages  
16 based upon the ratio of the amount of capital investment authority  
17 requested in all applications.

18 SECTION 4. NEW LAW A new section of law to be codified  
19 in the Oklahoma Statutes as Section 3933 of Title 68, unless there  
20 is created a duplication in numbering, reads as follows:

21 A. The Department shall certify capital investment authority  
22 under the provisions of this act in amounts that would not authorize  
23 more than Fifteen Million Dollars (\$15,000,000.00) in state tax  
24 credits to be claimed against state tax liability in any calendar



1 year, excluding any credit amounts carried forward as provided under  
2 subsection A of Section 5 of this act. Within ninety (90) days of  
3 the applicant receiving notice of certification, the rural fund  
4 shall issue the capital investment to, and receive cash in the  
5 amount of the certified amount from a rural investor. At least ten  
6 percent (10%) of the rural investor's capital investment shall be  
7 composed of capital raised by the rural investor directly or  
8 indirectly from sources, including directors, members, employees,  
9 officers, and affiliates of the rural investor, other than the  
10 amount invested by the allocatee claiming the tax credits in  
11 exchange for such allocation of tax credits. The rural fund shall  
12 provide the Department with evidence of the receipt of the cash  
13 investment within ninety-five (95) days of the applicant receiving  
14 notice of certification.

15 B. If the rural fund does not receive the cash investment and  
16 issue the capital investment within such time period following  
17 receipt of the certificate notice, the certification shall lapse and  
18 the rural fund shall not issue the capital investment without  
19 reapplying to the Department for certification. Lapsed  
20 certifications shall revert to the Department and shall be reissued  
21 pro rata to applicants whose capital investment allocations were  
22 reduced in accordance with the application process provided under  
23 subsection D of Section 3 of this act.

24

1 C. A rural fund, before making a qualified investment, may  
2 request from the Department a written opinion as to whether the  
3 business in which it proposes to invest is an eligible business.  
4 The Department, no later than fifteen (15) business day after the  
5 date of receipt of such request, shall notify the rural fund of its  
6 determination. If the Department fails to notify the rural fund of  
7 its determination by the twentieth business day, the business in  
8 which the rural fund proposes to invest shall be deemed an eligible  
9 business.

10 SECTION 5. NEW LAW A new section of law to be codified  
11 in the Oklahoma Statutes as Section 3934 of Title 68, unless there  
12 is created a duplication in numbering, reads as follows:

13 A. Upon making a capital investment in a rural fund, a rural  
14 investor shall have a vested right to a credit against such entity's  
15 state tax liability that may be utilized on each credit allowance  
16 date of such capital investment in an amount equal to the applicable  
17 percentage for such credit allowance date multiplied by the purchase  
18 price paid to the rural fund for the capital investment. The amount  
19 of the credit claimed by a rural investor shall not exceed the  
20 amount of such entity's state tax liability for the tax year for  
21 which the credit is claimed. Any amount of credit that a rural  
22 investor is prohibited from claiming in a tax year as a result of  
23 this section may be carried forward for use in any of the five (5)  
24 subsequent tax years, but shall not be carried back to prior tax

1 years. It is the intent of this act that a rural investor claiming  
2 a credit under this act is not required to pay any additional tax  
3 that may arise as a result of claiming such credit.

4 B. No credit claimed under the provisions of this act shall be  
5 refundable or saleable on the open market. Credits earned by or  
6 allocated to a partnership, limited liability company, or S-  
7 corporation may be allocated to the partners, members, or  
8 shareholders of such entity for their direct use in accordance with  
9 the provisions of any agreement among such partners, members, or  
10 shareholders, and a rural fund shall notify the Department of the  
11 names of the entities that are eligible to utilize transfer of a  
12 capital investment upon such allocation, change or transfer. Such  
13 allocation shall not be considered a sale for the purpose of this  
14 section.

15 C. The Department may recapture credits from a taxpayer that  
16 claimed a credit authorized under this section if:

17 1. The rural fund does not invest sixty percent (60%) of its  
18 capital investment authority in qualified investments in this state  
19 within two (2) years of the credit allowance date, and one hundred  
20 percent (100%) of its capital investment authority in qualified  
21 investments in this state within three (3) years of the credit  
22 allowance date; provided that at least seventy percent (70%) of  
23 these initial qualified investments must be made in eligible  
24 businesses located in rural areas;

1        2. The rural fund fails to maintain qualified investments equal  
2 to ninety percent (90%) of its capital investment authority from the  
3 third anniversary until the sixth anniversary of the credit  
4 allowance date, with seventy percent (70%) of such investments  
5 maintained in eligible businesses located in rural areas. For each  
6 year the rural fund fails to maintain such investments, the  
7 Department may recapture an amount of such year's allowed credits  
8 equal to the percentage difference between ninety percent (90%) of a  
9 rural fund's capital investment authority and the actual amount of  
10 qualified investments maintained for such year. For the purposes of  
11 this subsection, a qualified investment is considered even if the  
12 qualified investment was sold or repaid so long as the rural fund  
13 reinvests an amount equal to the capital returned or recovered or  
14 repaid by the rural fund from the original investment, exclusive of  
15 any profits realized, in other qualified investments in this state  
16 within twelve (12) months of receipt of such capital. Amounts  
17 received periodically by a rural fund shall be treated as  
18 continually invested in qualified investments if the amounts are  
19 reinvested in one or more qualified investments by the end of the  
20 following calendar year. A rural fund shall not be required to  
21 reinvest capital returned from qualified investments after the fifth  
22 anniversary of the credit allowance date, and such qualified  
23 investments shall be considered held continuously by the rural fund  
24 through the sixth anniversary of the credit allowance date;

1        3. Prior to the earlier of a) exiting the program in accordance  
2 with this act or b) thirty (30) days after the sixth anniversary of  
3 the credit allowance date, the rural fund makes a distribution or  
4 payment that results in the rural fund having less than one hundred  
5 percent (100%) of its capital investment authority invested in  
6 qualified investments in the state or held in cash or other  
7 marketable securities; or

8        4. The rural fund violates the provisions of Section 6 of this  
9 act, in which case the Department may recapture an amount equal to  
10 the amount of the rural fund's capital investment authority found to  
11 be in violation of such provisions.

12        For the purposes of meeting and maintaining the objectives  
13 established for investment in paragraphs 1 and 2 of this subsection,  
14 a rural fund's qualified investments shall be multiplied by a factor  
15 of one and one-quarter ( $1 \frac{1}{4}$ ) in counties with less than thirty  
16 thousand (30,000) in population and more than thirteen thousand  
17 (13,000) in population and shall be multiplied by a factor of one  
18 and one-half ( $1 \frac{1}{2}$ ) in counties with a population of thirteen  
19 thousand (13,000) or less.

20        D. Recaptured credits and related capital investment authority  
21 shall revert to the Department and shall be reissued pro rata to  
22 applicants whose capital investment allocations were reduced in  
23 accordance with the application process provided under subsection D  
24 of Section 3 of this act.

1 E. No recapture shall occur until the rural fund has been given  
2 notice of noncompliance and afforded six (6) months from the date of  
3 such notice to cure the noncompliance.

4 SECTION 6. NEW LAW A new section of law to be codified  
5 in the Oklahoma Statutes as Section 3935 of Title 68, unless there  
6 is created a duplication in numbering, reads as follows:

7 A. No eligible business that receives a qualified investment  
8 under the provisions of act, or any affiliates or such eligible  
9 business, shall directly or indirectly;

10 1. Own or have the right to acquire an ownership interest in a  
11 rural fund or member or affiliate of a rural fund, including, but  
12 not limited to, a holder of a capital investment issued by a rural  
13 fund; or

14 2. Loan to or invest in a rural fund or any member or affiliate  
15 of a rural fund, including but not limited to, a holder of capital  
16 investment issued by a rural fund, where the proceeds of such loan  
17 or investment are directly or indirectly used to fund or refinance  
18 the purchase of capital investments under this act.

19 SECTION 7. NEW LAW A new section of law to be codified  
20 in the Oklahoma Statutes as Section 3936 of Title 68, unless there  
21 is created a duplication in numbering, reads as follows:

22 A. Rural funds shall submit a report to the Department within  
23 the first fifteen (15) business days after the second and third  
24 anniversary of the initial credit allowance date. The report

1 following the second anniversary shall provide documentation as to  
2 the investment of sixty percent (60%) of the purchase price of such  
3 capital investment in qualified investments. The report following  
4 the third anniversary shall provide documentation as to the  
5 investment of one hundred percent (100%) of the purchase price of  
6 such capital investment in qualified investments. Unless previously  
7 reported pursuant to this subsection, such reports shall also  
8 include:

9 1. The name and location of each eligible business receiving a  
10 qualified investment;

11 2. Bank statements of such rural fund evidencing each qualified  
12 investment;

13 3. A copy of the written opinion of the Department, as provided  
14 in subsection C of Section 4 of this act, or evidence that such  
15 business was an eligible business at the time of such qualified  
16 investment, as applicable;

17 4. The number of jobs created and jobs retained as a result of  
18 each qualified investment;

19 5. The average salary of positions described in paragraph 4 of  
20 this paragraph; and

21 6. Such other information as required by the Department.

22 B. For all subsequent years, rural funds shall submit an annual  
23 report to the Department within ninety (90) days of the beginning of  
24

1 the calendar year during the compliance period. The report shall  
2 include, but is not limited to the following:

3 1. The number of jobs created and jobs retained as a result of  
4 qualified investments;

5 2. The average annual salary of positions described in  
6 paragraph 1 of this subsection; and

7 3. Such other information as required by the Department.

8 C. On or after the sixth anniversary of the credit allowance  
9 date, a rural fund may apply to the Department to exit the program  
10 and no longer be subject to the regulation hereunder. The  
11 Department shall respond to the exit application within fifteen (15)  
12 days of receipt. In evaluating the exit application, the fact that  
13 no credits have been recaptured and that the rural fund has not  
14 received a notice of recapture that has not been cured pursuant to  
15 subsection E of Section 5 of this act shall be sufficient evidence  
16 to prove that the rural fund is eligible for exit. The Department  
17 shall not unreasonably deny an exit application submitted under this  
18 section. If an exit application is denied, the notice shall include  
19 the reasons for the determination.

20 SECTION 8. NEW LAW A new section of law to be codified  
21 in the Oklahoma Statutes as Section 3937 of Title 68, unless there  
22 is created a duplication in numbering, reads as follows:

23 The Department shall accept no new applications for tax credits  
24 authorized under this act after December 1, 2032.



SECTION 9. This act shall become effective November 1, 2022.

58-2-8996 MKS 01/19/22