

HOUSE BILL NO. 834

INTRODUCED BY PABREGA, GOODOVER

IN THE HOUSE

March 4, 1981	Introduced and referred to Committee on Taxation.
March 5, 1981	Fiscal note requested.
March 9, 1981	Fiscal note returned.
March 30, 1981	On motion rules suspended and bill allowed to be transmitted on the 75th legislative day.
April 3, 1981	Committee recommend bill do pass as amended. Report adopted.
April 4, 1981	Bill printed and placed on members' desks.
	Transmittal date extended to the 76th legislative day.
April 6, 1981	Second reading, do pass as amended.
	On motion rules suspended and bill placed on third reading this day.
	Third reading, passed. Ayes, 86; Noses, 8. Transmitted to Senate.

IN THE SENATE

April 7, 1901 On motion and consent bill allowed to be received and considered this session.

April 7, 1981

Introduced and referred
to Committee on Taxation.

April 15, 1981

Committee recommend bill
be concurred in. Report
adopted.

April 17, 1981

Second reading, concurred in.

On motion rules suspended.
Bill placed on calendar for
third reading this day.

Third reading, concurred in.
Ayes, 41; Noes, 9.

IN THE HOUSE

April 20, 1981

Returned from Senate.
Concurred in. Sent to
enrolling.

Reported correctly enrolled.

1 HOUSE BILL NO. 834
2 INTRODUCED BY Felix J. Sandoval

4 A BILL FOR AN ACT ENTITLED: "AN ACT TO ESTABLISH AN
5 INVESTMENT CREDIT AGAINST PERSONAL INCOME TAX OR CORPORATE
6 TAX FOR INVESTMENTS IN SMALL BUSINESS INVESTMENT COMPANIES;
7 AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

10 Section 1. Short title. This [act] may be cited as the
11 "Small Business Investment Credit Act".

12 Section 2. Purpose. The purpose of this [act] is to
13 encourage private sector investment in venture capital firms
14 called small business investment companies, which are
15 organized for the purpose of diversifying and strengthening
16 employment opportunities of companies within Montana. This
17 [act], by establishing limited tax credits, demonstrates a
18 recognition by the legislature that significant incentives
19 must be offered to attract private risk capital to
20 manufacturing, agricultural, and timber product processing
21 companies when the alternative investments for private risk
22 capital are natural resource ventures, which often yield
23 extremely high rates of return. The legislature further
24 recognizes the necessity of tax incentives for investors in
25 manufacturing, agricultural, and timber product processing

1 given the hardship caused many Montana communities by their
2 reliance on an economic base dominated by single, large
3 industries.

4 Section 3. Definition. For the purposes of this [act],
5 "small business investment company" or "SBIC" means a small
6 business investment company as defined in section 103 of the
7 federal Small Business Investment Act of 1958, as amended.

19 (1) Kalispell, serving Lincoln, Flathead, Sanders, and
20 Lake Counties;

21 (2) Missoula, serving Mineral, Missoula, and Ravalli
22 Counties:

(3) Anaconda, serving Deer Lodge, Beaverhead, and
Silver Bow Counties.

(4) Helena, serving Granite, Powell, Lewis and Clark.

1 Jefferson, and Broadwater Counties;
 2 (5) Great Falls, serving Glacier, Toole, Pondera,
 3 Teton, and Cascade Counties;
 4 (6) Bozeman, serving Meagher, Madison, Gallatin, Park,
 5 and Sweet Grass Counties;
 6 (7) Havre, serving Liberty, Hill, Chouteau, Blaine,
 7 and Phillips Counties;
 8 (8) Lewistown, serving Judith Basin, Fergus,
 9 Petroleum, Wheatland, Golden Valley, and Musselshell
 10 Counties;
 11 (9) Billings, serving Stillwater, Carbon, Yellowstone,
 12 Treasure, Big Horn, and Rosebud Counties;
 13 (10) Glasgow, serving Valley, Daniels, Sheridan,
 14 McCone, Garfield, Roosevelt, and Richland Counties;
 15 (11) Miles City, serving Dawson, Prairie, Wibaux,
 16 Custer, Fallon, Powder River, and Carter Counties.

17 Section 5. Amount of tax credit -- carryover. (1)
 18 Subject to the limitations set forth in this section and
 19 [section 6], there is allowed as a tax credit against the
 20 tax imposed by 15-30-103, 15-30-104, and 15-30-105 or by
 21 15-31-101, 15-31-121, and 15-31-122 the amount of 50% of any
 22 investment by any investor in any region in Montana
 23 specified in [section 4] in the capital stock of, or limited
 24 partnership units issued by, regional small business
 25 investment companies organized within the state of Montana

1 as described in [sections 3 and 4].
 2 (2) The amount of the credit allowed for the taxable
 3 year is the sum of:
 4 (a) the credit carryovers carried to the taxable year
 5 as provided in subsection (4); and
 6 (b) 25% of the amount of credit determined under
 7 subsection (1).
 8 (3) Notwithstanding the provisions of subsection (2),
 9 the credit allowed for the taxable year may not exceed the
 10 lesser of:
 11 (a) the taxpayer's tax liability for the taxable year;
 12 or
 13 (b) 25% of the amount of credit allowed under
 14 subsection (1) for the taxable year and any prior taxable
 15 years with credit carryovers.
 16 (4) If any part of the credit is not applied against
 17 the tax liability for the taxable year, such excess shall be
 18 a credit carryover to each of the 10 taxable years following
 19 the unused credit year, subject to the limitations imposed
 20 under subsection (3).
 21 Section 6. Limitations. (1) From [the effective date
 22 of this act] through April 30, 1983, the maximum aggregate
 23 amount of investment credits allowed under [section 5] for
 24 any region listed in [section 4] is \$500,000.
 25 (2) After April 30, 1983, subsection (1) does not

1 apply. After April 30, 1983, credits are allowable under
2 [section 5] until the point at which the records of the
3 department of revenue indicate that the total aggregate
4 credit amount allowable as provided in subsection (3) has
5 been reached or December 31, 1983, whichever occurs first.

6 (3) The total aggregate amount of credits allowable
7 under this [act] is \$5.5 million. In no case may the
8 department allow an investment credit that would result in a
9 total aggregate credit amount in excess of \$5.5 million.

10 Section 7. Reporting -- recordkeeping by the
11 department. (1) The chairman or president of each regional
12 small business investment company shall report on a form
13 established by the department on a monthly basis the name of
14 each investor, the region of investment, the amount of the
15 investment made, and the date of investment.

16 (2) The department shall keep a record of the
17 aggregate amount of investments made in and credits allowed
18 for each individual region and for all regions taken
19 together in order to carry out the provisions of [section
20 6].

21 Section 8. Rulemaking authority. The department of
22 revenue may adopt rules necessary to carry out the
23 provisions of this [act].

24 Section 9. Effective date. This act is effective on
25 passage and approval.

STATE OF MONTANA

REQUEST NO. 420-81

FISCAL NOTE

Form BD-15

In compliance with a written request received March 4, 1981, there is hereby submitted a Fiscal Note for HOUSE BILL 834 pursuant to Title 5, Chapter 4, Part 2 of the Montana Code Annotated (MCA).

Background information used in developing this Fiscal Note is available from the Office of Budget and Program Planning, to members of the Legislature upon request.

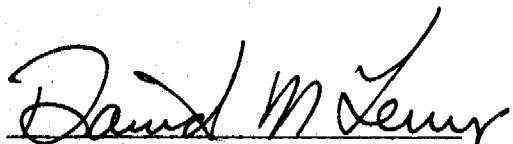
DESCRIPTION

An act to establish an investment credit against personal income tax or corporate tax for investments in small business investment companies; and providing an immediate effective date.

FISCAL IMPACT

It is impossible to anticipate the extent to which this proposal would be utilized in Montana; therefore, a precise estimate of the fiscal impact cannot be given. It is conceivable that individual income or corporation tax receipts could be reduced by as much as \$5.5 million during the 82-83 biennium, and implementation of this measure would necessitate additional expenditures for administration. It is estimated that \$25 to 30 thousand would be needed for initial data processing system development, as well as \$6 thousand annually for data processing operational expenses and about \$14 thousand annually for additional tax administration personnel.

PREPARED BY THE DEPARTMENT OF REVENUE



BUDGET DIRECTOR

Office of Budget and Program Planning

Date: 3-9-81

1 STATEMENT OF INTENT

2 HOUSE BILL 834

3 House Taxation Committee

4

5 Section 4 of House Bill 834 provides the Department of
6 Revenue with rulemaking authority relating to Small Business
7 Investment Corporations in Montana. In enacting this
8 legislation, it is the intent of the Legislature that the
9 Department of Revenue will adopt rules that ensure the
10 proper reporting of investments in SBIC's and rules to
11 establish eligibility for the capital gains and dividend
12 treatment allowed by House Bill 834.

Approved by Committee
on Taxation

10 BE IT ENACTED BY THE LEGESLATURE OF THE STATE OF MONTANA:

11 Section 1. Short title. This [act] may be cited as the
12 "Small Business Investment Credit INCENTIVE Act".

13 Section 2. Purpose. The purpose of this [act] is to
14 encourage private sector investment in venture capital firms
15 called small business investment companies, which are
16 organized for the purpose of diversifying and strengthening
17 employment opportunities of companies within Montana. This
18 [act], by establishing limited tax credits EXEMPTIONS,
19 demonstrates a recognition by the legislature that
20 significant incentives must be offered to attract private
21 risk capital to manufacturing, agricultural, and timber
22 product processing companies when the alternative
23 investments for private risk capital are natural resource
24 ventures, which often yield extremely high rates of return.
25 The legislature further recognizes the necessity of tax

1 incentives for investors in manufacturing, agricultural, and
2 timber product processing given the hardship caused many
3 Montana communities by their reliance on an economic base
4 dominated by single, large industries.

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20 tij--Kattispetty--serving--Lincolny--Flatheady--Sandersony--and
21 take--Forresty--

22 f27--Missouri--serving-Minnesota--Missouri--and--Revatti
23 ~~Forrest~~

24 t37--Anaconda--serving--Beer--Lodge--Beaverhead--and
25 5+ver-Bow-format-test

1 {4}--Helenas--serving-Granite-Powell-Lewis-and-Custer
 2 Jefferson-and-Broadwater-Counties
 3 {5}--Great-Falls--serving-Glacier--Foothills--Pondera
 4 Fenton-and-Cascade-Counties
 5 {6}--Bozeman--serving-Meagher-Madison-Gallatin-Park
 6 and-Sweet-Grass-Counties
 7 {7}--Havre--serving-Liberty-Hill--Chouteau--Blaine
 8 and-Phillips-Counties
 9 {8}--Lewistown--serving-Judith-Basin-Fergus
 10 Petroleum--Wheatland-Golden-Valley--and-Montgomery
 11 Counties
 12 {9}--Billings--serving-Stillwater-Carbon-Yellowstone
 13 Treasure-Big-Horn-and-Rosebud-Counties
 14 {10}--Glasgow--serving-Valley-Bonito-Sheridan
 15 McCone-Garfield-Roosevelt-and-Richtland-Counties
 16 {11}--Miles-City--serving-Bowman-Prarie-Wibaux
 17 Custer-Foothills-Powder-River-and-Carter-Counties
 18 Section-5--Amount--of--tax--credit--carryovers--{11}
 19 Subject-to-the-limitations-set-forth-in--this--section--and
 20 {section-6}--there--is--allowed-as-a-tax-credit--against--the
 21 tax-imposed-by-15-30-103-15-30-104--and-15-30-105--or--by
 22 15-31-102-15-31-122--the--amount--of--50%--of--any
 23 investment--by--any--investor--in--any--region--in--Montana
 24 specified-in-section-4--in--the--capital--stock--of--or--limited
 25 partnership--units--issued--by--regional--small--business

1 investment--companies--organized-within-the-state-of-Montana
 2 as-described-in-{sections-3-and-4}--
 3 {2}--The--amount--of--the--credit--allowed--for--the--taxable
 4 year--is--the--sum--of--
 5 {a}--the--credit--carryovers--carried--to--the--taxable--year
 6 as--provided--in--subsection-{4}--and--
 7 {b}--25%--of--the--amount--of--credit--determined--under
 8 subsection-{1}--
 9 {3}--Notwithstanding--the--provisions--of--subsection-{2}--
 10 the--credit--allowed--for--the--taxable--year--may--not--exceed--the
 11 lesser--of--
 12 {a}--the--taxpayer's--tax--liability--for--the--taxable--year
 13 or
 14 {b}--25%--of--the--amount--of--credit--allowed--under
 15 subsection-{1}--for--the--taxable--year--and--any--prior--taxable
 16 years--with--credit--carryovers--
 17 {4}--If--any--part--of--the--credit--is--not--applied--against
 18 the--tax--liability--for--the--taxable--year--such--excess--shall--be
 19 a--credit--carryover--to--each--of--the--10--taxable--years--following
 20 the--unused--credit--year--subject--to--the--limitations--imposed
 21 under--subsection-{3}--
 22 Section-6--Limitations--{1}--From--the--effective--date
 23 of--this--act--through--April-30-1983--the--maximum--aggregate
 24 amount--of--investment--credits--allowed--under--{section-5}--for
 25 any--region--listed--in--{section-4}--is--\$500,000--.

1 {2}--After-April-30,--1983,--subsection--{1}--does--not
 2 apply--After--April--30,--1983--credits--are--allowable--under
 3 {section-5}--until--the--point--at--which--the--records--of--the
 4 department--of--revenue--indicate--that--the--total--aggregate
 5 credit--amount--allowable--as--provided--in--subsection--{3}--has
 6 been--reached--or--December-31--1983,--whichever--occurs--first.
 7 {3}--The--total--aggregate--amount--of--credits--allowable
 8 under--this--[act]--is--\$5.5--million--In--no--case--may--the
 9 department--allow--an--investment--credit--that--would--result--in--a
 10 total--aggregate--credit--amount--in--excess--of--\$5.5--million.

11 Section 4. Reporting -- recordkeeping by the
 12 department. {1} The chairman or president of each regional
 13 small business investment company shall report on a form
 14 established by the department on a monthly basis the name of
 15 each investor, the-region-of-investment the amount of the
 16 investment made, and the date of investment.

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 18 aggregate--amount--of--investments--made--in--and--credits--allowed
 19 for--each--individual--region--and--for--all--regions--taken
 20 together--in--order--to--carry--out--the--provisions--of--{section
 21 6}.

22 Section 5. Rulemaking authority. The department of
 23 revenue may adopt rules necessary to carry out the
 24 provisions of this [act].

25 SECTION 6. CAPITAL GAINS -- DIVIDENDS EXEMPTED. ANY

1 CAPITAL GAINS OR DIVIDEND INCOME REALIZED BY AN INDIVIDUAL
 2 OR A CORPORATION FROM AN INVESTMENT IN AN SBIC ORGANIZED IN
 3 ACCORDANCE WITH THIS [ACT] IS EXEMPT FROM TAXATION UNDER THE
 4 PROVISIONS OF TITLE 15, CHAPTERS 30 AND 31.
 5 Section 7. Effective date. This act is effective on
 6 passage and approval.

-End-

1 **STATEMENT OF INTENT**2 **HOUSE BILL 834**3 **House Taxation Committee**

4

5 Section 4 5 of House Bill 834 provides the Department
6 of Revenue with rulemaking authority relating to Small
7 Business Investment Corporations in Montana. In enacting
8 this legislation, it is the intent of the legislature that
9 the Department of Revenue will adopt rules that ensure the
10 proper reporting of investments in SBIC's and rules to
11 establish eligibility for the capital gains and dividend
12 treatment allowed by House Bill 834.

HOUSE BILL NO. 834
INTRODUCED BY FABREGA, GOODOVER

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5 ~~INVESTMENT--CREDIT--AGAINST EXEMPT CERTAIN CAPITAL GAINS AND~~
6 DIVIDEND INCOME FROM PERSONAL INCOME TAX OR CORPORATE TAX
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23 investments for private risk capital are natural resource
24 ventures, which often yield extremely high rates of return.
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1 {4}--Helenas--serving-Granite-Powell-Lewis-and-Custer
 2 Jefferson-and-Broadwater-Counties
 3 {5}--Great-Falls--serving--Flathead--Foothills-Pondera
 4 Fenton-and-Essex-Counties
 5 {6}--Bozeman--serving-Meagher-Madison-Gallatin-Park
 6 and-Sweet-Grass-Counties
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 14 {10}--Glasgow--serving--Valley---Bannock--Sheridan
 15 Meagher-Garfield-Roosevelt-and-Richtland-Counties
 16 {11}--Winnipeg-City--serving-Benton---Prairie---Hinckley
 17 Custer-Fallon-Powder-Rivers-and-Carter-Counties
 18 Section-5--Amount--of--tax--credit----carryovers--{12}
 19 Subject-to-the-limits-set-forth-in--this--section--and
 20 {section--6}--there--is--allowed-as-a-tax-credit-against-the
 21 tax-imposed-by--{15-30-103--15-30-104--and--15-30-105--or--by
 22 15-31-101--15-32-102--and--15-31-102--the--amount--of--50%--of--any
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 24 specified-in-{section-4}--in--the--capital--stock--of--or--limited
 25 partnership--units--issued--by--regional--small--business

1 investment--companies--organized-within-the-state-of-Montana
 2 as-described-in-{sections-3-and-4}
 3 {2}--the--amount--of--the--credit--allowed--for--the--taxable
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 20 the--unused--credit--year--subject--to--the--limits--imposed
 21 under--subsection-{3}--
 22 Section-6--limits--{13}--from--{the--effective--date
 23 of--this--act}--through--April-30-1983--the--maximum--aggregate
 24 amount--of--investment--credits--allowed--under--{section-5}--for
 25 any--region--listed--in--{section-4}--is--\$500,000.

1 t27--After-April-30,--1983,--subsection--{3}--does--not
 2 apply--After--April--30--1983,--credits--are--allowable--under
 3 [section-5]--until--the--point--at--which--the--records--of--the
 4 department--of--revenue--indicate--that--the--total--aggregate
 5 credit--amount--allowable--as--provided--in--subsection--{3}--has
 6 been--reached--or--December-31--1983,--whichever--occurs--first.
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 8 under--this--[fact]--is--\$5+5--million--in--no--case--may--the
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 10 total--aggregate--credit--amount--in--excess--of--\$5+5--million.

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 13 small business investment company shall report on a form
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 15 each investor, the-region-of-investment the amount of the
 16 investment made, and the date of investment.

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 2 OR A CORPORATION FROM AN INVESTMENT IN AN SBIC ORGANIZED IN
 3 ACCORDANCE WITH THIS [ACT] IS EXEMPT FROM TAXATION UNDER THE
 4 PROVISIONS OF TITLE 15, CHAPTERS 30 AND 31.

5 Section 7. Effective date. This act is effective on
 6 passage and approval.

-End-

1 STATEMENT OF INTENT
2
3 HOUSE BILL 834
4
5 House Taxation Committee
6
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9
10
11
12

Section 4.5 of House Bill 834 provides the Department of Revenue with rulemaking authority relating to Small Business Investment Corporations in Montana. In enacting this legislation, it is the intent of the Legislature that the Department of Revenue will adopt rules that ensure the proper reporting of investments in SBIC's and rules to establish eligibility for the capital gains and dividend treatment allowed by House Bill 834.

HOUSE BILL NO. 834
INTRODUCED BY FABREGA, GOODOVER

4 A BILL FOR AN ACT ENTITLED: "AN ACT TO ESTABLISH AN
5 INVESTMENT--CREDIT--AGAINST EXEMPT CERTAIN CAPITAL GAINS AND
6 DIVIDEND INCOME FROM PERSONAL INCOME TAX OR CORPORATE TAX
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7 business investment company as defined in section 103 of the
8 Federal Small Business Investment Act of 1958, as amended.

9 Section 4--location--of--small--business--investment
10 companies--small--business--investment--companies--for--which
11 investors--may--qualify--for--tax--credits--under--[section 5]--are
12 limited--to--newly--organized--SBEs--organized--after--[the
13 effective--date--of--this--act]--and--located--in--each--of--the
14 following--regions--of--the--state--with--a--distribution--of--one
15 SBE--in--each--region--Such--newly--organized--SBEs--are--not
16 limited--to--doing--business--in--the--region--where--they--are
17 headquartered--but--are--limited--to--doing--business--within--the
18 state--of--Montana--The--regions--and--suggested--city--for--the
19 headquarters--are

20 fit--Kottapetty--serving-tteotny-Flatheady-Sandersy-and
21 take-Fountainst

1 {4}--Helenas--serving-Granite-Powell-Lewis-and-Custer
 2 Jefferson-and-Broadwater-Counties;
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 4 Teton-and-Fairfax-Counties;
 5 {6}--Bozeman--serving-Meagher-Madison-Gallatin-Park
 6 and-Sweet-Grass-Counties;
 7 {7}--Havre--serving-Liberty-Hill-Chouteau-Blaine
 8 and-Phillips-Counties;
 9 {8}--Lewistown--serving-Judith-Basin-Fergus
 10 Petroleum-Wheatland-Golden-Valley-and-Muskeetooth
 11 Counties;
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 7 {b}--25%--of--the--amount--of--credit--determined--under
 8 subsection-{1}--;
 9 {3}--Notwithstanding--the-provisions-of-subsection-{2}--
 10 the-credit-allowed-for-the-taxable-year-may-not--exceed--the
 11 lesser-of:
 12 {a}--the-taxpayer's-tax-liability-for-the-taxable-year
 13 or
 14 {b}--25%--of--the--amount--of--credit--allowed--under
 15 subsection-{1}--for-the-taxable-year-and--any--prior--taxable
 16 years-with-credit-carryovers;
 17 {4}--If--any--part--of--the--credit--is--not--applied--against
 18 the--tax--liability--for--the--taxable--year--such--excess--shall--be
 19 a--credit--carryover--to--each--of--the--10--taxable--years--following
 20 the--unused--credit--year--subject--to--the--limitations--imposed
 21 under--subsection-{3}--;
 22 Section-6--Limitations--{1}--From-[the-effective-date
 23 of--this--act]--through-April-30-1983--the--maximum--aggregate
 24 amount--of--investment--credits--allowed--under-[section-5]--for
 25 any--region--listed--in-[section-4]--is--\$500,000.

1 (2) --After April 30, --1983, --subsection --(1)-- does --not
 2 apply --After April 30, --1983-- credits are allowable under
 3 [section 5] until the point at which the records of the
 4 department of revenue indicate that the total aggregate
 5 credit amount allowable as provided in subsection --(3)-- has
 6 been reached or December 31, 1983, whichever occurs first.

7 (3) --The total aggregate amount of credits allowable
 8 under this --[act]-- is \$5.5 million --in no case may the
 9 department allow an investment credit that would result in a
 10 total aggregate credit amount in excess of \$5.5 million--

11 Section 4. Reporting -- recordkeeping by the
 12 department. (1) The chairman or president of each regional
 13 small business investment company shall report on a form
 14 established by the department on a monthly basis the name of
 15 each investor, the region of investment, the amount of the
 16 investment made, and the date of investment.

17 (2) --The department shall keep a record of the
 18 aggregate amount of investments made and credits allowed
 19 for each individual region and for all regions taken
 20 together in order to carry out the provisions of [section
 21 6].

22 Section 5. Rulemaking authority. The department of
 23 revenue may adopt rules necessary to carry out the
 24 provisions of this [act].

25 SECTION 6. CAPITAL GAINS -- DIVIDENDS EXEMPTED. ANY

1 CAPITAL GAINS OR DIVIDENDS REALIZED BY AN INDIVIDUAL
 2 OR A CORPORATION FROM AN INVESTMENT IN AN SBIC ORGANIZED IN
 3 ACCORDANCE WITH THIS [ACT] IS EXEMPT FROM TAXATION UNDER THE
 4 PROVISIONS OF TITLE 15, CHAPTERS 30 AND 31.
 5 Section 7. Effective date. This act is effective on
 6 passage and approval.

-End-