



Angel Tax Credit

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Angel Tax Credit: Summary

- What is it?
 - A 25% tax credit for investments in qualified small emerging businesses
 - Businesses in a high tech field, or
 - Businesses using new proprietary technology
- Purpose?
 - To encourage the growth of and foster job creation by small emerging high technology Minnesota businesses by providing incentives for making capital investments in these businesses
- Who benefits?
 - Businesses: get the capital they need to grow
 - Investors: lowers the risk for investing in new businesses
 - Minnesota: kick-starts emerging businesses; creates jobs

Angel Tax Credit: the Credit

- The statute: 116J.8737
 - Called “Small Business Investment Tax Credit”
- 25% individual income tax credit for qualified investors
- Refundable (non-transferable)
- Maximum
 - \$125,000/year per individual
 - \$250,000/year married filing jointly
- Program limits
 - 2010 - \$11M
 - 2011-2014 - \$12M/yr

Angel Tax Credit: Investors

- Qualifying Investor

- Must be a “natural person”
- Accredited investor (per SEC Reg. D)
- Non-accredited investor investing in exempt filings per
 - Minn. Stat. 80A.46 (13) or (14)
 - Minn. Stat. 80A.50 (b)
- Investor does not qualify if he receives more than 50% of his annual gross income from the business
- Must be certified by DEED before investment is made
 - Exception: non-accredited investors making exempt transactions may file within 30 days of making investment
 - Certification filing fee of \$350 (calendar year certification)
- Minimum qualifying investment of \$10,000
- Investor certification applications are on the DEED website:
www.PositivelyMinnesota.com/angelcredit

Angel Tax Credit: Funds

- Qualifying funds
 - Minimum 3 qualifying investors
 - Must meet “natural person” requirement*
 - Organized as a pass-through entity (e.g., S-Corp, LLC, partnership)
 - Investment in fund is equity or interest-bearing notes
 - Must be certified by DEED before investment is made
 - Certification filing fee of \$1,000 (calendar year certification)
 - Minimum qualifying investment of \$30,000
 - Fund certification applications are on the DEED website:
www.PositivelyMinnesota.com/angelcredit

* Proposal is before legislature to allow non-natural person fund members, though these members would continue to not qualify for the credit

Angel Tax Credit: Businesses

- Qualifying business
 - Headquartered in Minnesota
 - Minimum 51% of employees and 51% of payroll in Minnesota
 - Fewer than 25 employees
 - Pays employees annual wages of at least 175% of poverty level for a family of four
 - Currently \$18.55/hr
 - Does not apply to business' executives, officers, board members, 20%+ owners
 - Not in operation for more than 10 years
 - Not previously received private equity investments of more than \$2M*

* Proposal is before legislature to increase to \$4M

Angel Tax Credit: Businesses

- Qualifying business - continued
 - Not disqualified from investment under Minn. Stat. 80A.50(b)(3)
 - 80A.50(b)(3) = Small corporation offering registration disqualifications
 - Not generated more than \$4M in investments that have received angel tax credit
 - \$1M angel tax credit cap per business
 - Must be certified by DEED before investment is made
 - Certification filing fee of \$150 (calendar year certification)
 - Business certification applications are on the DEED website:
www.PositivelyMinnesota.com/angelcredit

Angel Tax Credit: Business Types

- Qualifying business types (3)

A business engaged in, or committed to engage in, innovation in Minnesota whose primary business activity is:

1. Using **proprietary technology** to add value to a product, process or service in a qualified **high-technology field**; or
2. Researching or developing a **proprietary** product, process, or service in a qualified **high-technology field**; or
3. Researching, developing, or producing a new **proprietary technology** for use in the fields of: agriculture, tourism, forestry, mining, manufacturing, or transportation

Angel Tax Credit: Business Types

- **Proprietary Technology:**
 - Technical innovations that are unique and legally owned or licensed by a business
 - Includes innovations that are patented, patent pending, a subject of trade secrets, or copyrighted
- **Qualified high-technology field:**
 - Aerospace, agricultural processing, renewable energy, energy efficiency and conservation, environmental engineering, food technology, cellulosic ethanol, information technology, materials science technology, nanotechnology, telecommunications, biotechnology, medical devices, pharmaceuticals, diagnostics, biologicals, chemistry, veterinary science, or similar

Angel Tax Credit: Business Excluded

Business types **excluded**:

- Real estate development
- Insurance
- Banking
- Lending
- Lobbying
- Political consulting
- IT consulting
- Wholesale trade
- Retail trade
- Leisure
- Stadium/ballpark builders/financers
- Hospitality
- Transportation
- Construction
- Ethanol from corn
- Professional services from:
 - Attorneys
 - Accountants
 - Business consultants
 - Physicians
 - Health care consultants

Angel Tax Credit: Reporting

- Individual investors, funds, and businesses must file Annual Reports with DEED
- Investors and funds:
 - Must report on status of investment for 3 years following investment
 - Must hold investment for 3 years, unless
 - Investment becomes worthless
 - 80% of business' assets are sold
 - Business is sold
 - Business goes public
 - **Credit is revoked and must be repaid if fail to meet 3 year holding period**
 - Annual report filing fee \$100
 - Failure to report fine \$500

Angel Tax Credit: Reporting

- Individual investors, funds, and businesses must file Annual Reports with DEED
- Business:
 - Must report for 5 years following year investment received
 - Must certify that
 - Headquarters remains in Minnesota
 - Minimum 51% of employees and 51% of payroll in Minnesota
 - Pays employees wages of at least 175% of poverty level
 - Is engaged in qualified business activity type
 - Credit is revoked and must be repaid by the business if it fails meet 51% of employees and 51% of payroll in Minnesota requirement during the 5 year reporting period
 - Revocation amount declines 20% per year until 0% in year 6
 - Annual report filing fee \$100
 - Failure to report fine \$500

Angel Tax Credit: Procedure

- Investors and Funds

- Apply for annual certification
- Identify a qualified business to invest in
 - Ascertain that the business has been certified

- Businesses

- Apply for annual certification
- Identify qualified investors/funds
 - Ascertain that the investor or fund has been certified

- Business, and Investor and/or Fund

- Jointly apply for a Tax Credit Allocation for the proposed transaction
 - Applications are on the DEED website: www.PositivelyMinnesota.com/angelcredit
- Make the investment within 60 days and submit evidence of transaction
 - Transaction must close by 12/31 (so sometimes less than 60 days)
- Receive tax credit certificate

Angel Tax Credit: 2010 Results

Businesses

Number of businesses certified: 112

Number of businesses in which investments were made: 67

Investors

Number of investors certified: 275

Number of investors who made investments: 258

Funds

Number of funds certified: 5

Number of funds which made investments: 4

Number of investors in investing funds: 32

Angel Tax Credit: 2010 Results

Investments

Amount of investment made pursuant to program: \$28,023,232

Amount of credits issued pursuant to program: \$7,005,808

Amount of credits rolling over to 2011 program: \$3,994,192

Investment Sources

	<u>Minnesotans</u>		<u>Non-Minnesotans</u>	
Number of Investors	211	73%	79	27%
Amount of Investment	\$21,954,960	78%	\$6,068,272	22%

Angel Tax Credit: Contacts

- www.PositivelyMinnesota.com/angelcredit
 - Program overview
 - Pages with information for business, investors, and funds
 - Checklists
 - Certification application forms
 - Credit allocation application forms
 - Annual report forms
 - FAQs
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