



Angel Tax Credit

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Angel Tax Credit: Summary

- What is it?
 - A 25% tax credit for investments in qualified small emerging high technology businesses
- 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

- 25% individual income tax credit for qualified investors
- Refundable (non-transferable)
- Maximum
 - \$125,000/year per individual
 - \$250,000 married filing jointly
- Program limits
 - 2010 - \$11M
 - 2011-2014 - \$12M/yr
- Complete bill: [HF 2695](#)
 - Called “Small Business Investment Tax Credit”

Angel Tax Credit: Investors

- Qualifying Investor
 - 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
 - Generally must be certified by DEED before investment is made
 - Certification filing fee of \$350
 - Minimum qualifying investment of \$10,000
 - Investor certification applications will be on the DEED website before August 1

Angel Tax Credit: Funds

- Qualifying funds
 - Minimum 3 qualifying investors
 - 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
 - Minimum qualifying investment of \$30,000
 - Fund certification applications will be on the DEED website before August 1

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 wages of at least 175% of poverty level
 - 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

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
 - Business certification applications will be on the DEED website before August 1

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
 - 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 with DEED for annual certification
 - Identify a qualified business to invest in
 - Ascertain that the business has been certified
 - Apply to DEED for a credit allocation
 - Make the investment within 60 days and inform DEED
 - Receive tax credit certificate
- Businesses
 - Apply with DEED for annual certification
 - Identify qualified investors
 - Ascertain that the investor or fund has been certified
 - Close the deal

Angel Tax Credit: Contacts

- www.PositivelyMinnesota.com
 - Search: “angel tax credit”
 - Detailed program information
 - Updates on implementation
 - Coming summer 2010:
 - Certification application forms (investors, funds, businesses)
 - Credit allocation request forms
 - Report forms (investors, funds, businesses)
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