MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
Angel Investment Tax Credit

March 29, 2011

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 887 (Michel), 2nd Engrossment, Article 2, Sections 2 through 4.

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
	(000's)			
General Fund	$0	$0	$0	$0

Effective retroactive to January 1, 2011.

EXPLANATION OF THE BILL

Current Law: The small business investment tax credit, commonly referred to as the angel investment tax credit or angel tax credit, was enacted in 2010, effective for tax years 2010 through 2014. The refundable credit is equal to 25% of the qualified investment in a qualified small business. The maximum annual credit is $250,000 for a married couple filing a joint return and $125,000 for all other filers.

The Department of Employment and Economic Development (DEED) administers most aspects of the credit program, including which small businesses, funds, and investors qualify under the statutory requirements for the program.

The credit is a certificate program administered by DEED. The total allocation of credits cannot exceed $11 million for tax year 2010 and $12 million per year for tax years 2011 through 2014. Any portion of a tax year's credits not allocated may be carried forward to subsequent years until all credits have been allocated.

Proposed Law: The bill modifies two requirements for a qualified small business.

- It provides a definition of the term "intern" and requires that a business pay its interns annual wages of at least 175% of the federal minimum wage.
- Current law requires that the business had not previously received private equity investments of more than $2 million. The bill changes the $2 million to $4 million.

The bill modifies one requirement for a qualified fund. For a fund to qualify for the program, it must have at least three investors. Current law requires that all of the investors must qualify for the program. The bill would change the requirement so that at least three of the investors must qualify for the program.

REVENUE ANALYSIS DETAIL

- For the first year of the program, about $7 million of the $11 million was allocated for the credit. About $4 million will be carried forward to tax year 2011.
- The full allocation was not used for 2010 because the program was implemented in the middle of the year and it was the first year of the program.
- According to DEED, it is expected that the full allocation will be used for each subsequent year, including the $4 million carryover from 2010, and that the changes made by the bill would not affect use of the full allocation. Therefore, the bill would have no impact on the General Fund.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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