GROSS PREMIUM TAX
INDIVIDUAL INCOME TAX
MN Business Investment Co. Credit
Angel Investment Tax Credit

February 27, 2012

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1823 (Downey) / S.F. 1774 (Michel)

	Fund Impact			
	F.Y. 2012	**F.Y. 2013**	**F.Y. 2014**	**F.Y. 2015**
		(000's)		
Minnesota Business Investment Co. Credit*	$0	$0	$0	$0
Angel Investment Tax Credit	$0	($8,000)	($8,000)	($8,000)
General Fund Total	$0	($8,000)	($8,000)	($8,000)

*Revenue loss would occur after FY 2015.

Provisions relating to investments for the Minnesota business investment company credit are effective the day following final enactment. The credit can first be taken in tax year 2016. The increased allocation of the angel investment tax credit begins with tax year 2012.

EXPLANATION OF THE BILL

Minnesota Business Investment Company Credit
A nonrefundable credit against the insurance gross premium tax would be allowed for investments made in a Minnesota business investment company. The primary purpose of a Minnesota business investment company is to invest its capital in qualified businesses. A qualified business must have its headquarters in Minnesota with its principal operations in Minnesota, have independent ownership, and have no more than 100 employees. The bill contains a list of primary business activities prohibited from being a qualified business. The bill specifies other qualification and reporting requirements.

The bill has a $100 million limitation on the total amount of tax credits. The $100 million limitation also applies to the credits claimed by investors for one Minnesota business investment company and its affiliates. The bill allows the transfer of the tax credits to other insurance companies that are subject to the gross premium tax.

Provided that Minnesota business investment companies are set up soon after enactment, an insurance company could make investments as soon as 2012. However, no tax credits can be claimed until tax year 2016. The credit is equal to 85% of insurance company investments in a Minnesota business investment company. The tax credits are taken over a period of five years. The credit is equal to 10% of the investment for tax year 2016, 15% for tax year 2017, and 20% per year for tax years 2018 through 2020. When the credit exceeds tax, the credit is carried over, with no limitation on the number of years to which it may be carried.

EXPLANATION OF THE BILL (Cont.)

If an insurance company domiciled in a state that imposes retaliatory taxation claims the tax credit, no retaliatory taxation can be imposed by Minnesota on the insurance company as a result of claiming the credit. Insurance companies domiciled in states other than Hawaii, Massachusetts, New York, and Rhode Island are subject to retaliatory taxation. Under retaliatory taxation, an insurance company pays a gross premium tax equal to the greater of the tax computed under Minnesota law or the tax computed under laws where the company is domiciled.

Angel Investment Tax Credit
The angel investment tax credit is the commonly-used name for a provision identified in statute as the small business investment credit. The refundable individual income tax credit is equal to 25% of the investment made in a qualified small business. The maximum credit for a tax year is $250,000 for a married couple filing a joint return and $125,000 for other filers.

The investment can be made directly by a qualified taxpayer or through a qualified angel investment network fund that invests in a qualified small business. The law specifies the requirements for the investor, the investment fund, the investment, and the small business. For tax years 2011 through 2014, current law limits the amount of tax credit that can be allocated to $12 million per tax year.

The bill would increase the tax credit allocated for tax years 2012 through 2014 from $12 million to $20 million per year. The bill also makes several changes to the requirements for being a qualified small business.

REVENUE ANALYSIS DETAIL

Minnesota Business Investment Company Credit
- There is no revenue loss during fiscal years 2012 through 2015 because tax year 2016 is the first year taxpayers can claim the credit
- If all of the available tax credits are allocated, the loss to the General Fund would be $100 million for all years, beginning in fiscal year 2016.

Angel Investment Tax Credit
- It is assumed that the maximum $20 million in credits would be approved for each tax year.
- Tax year impact was allocated to the following fiscal year.

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