

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Angel Investment Tax Credit

March 14, 2012

Department of Revenue
Analysis of H.F. 2361 (Mahoney)/ S.F 2290 (Lillie)

	Yes	No
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2012</u>	<u>F.Y. 2013</u>	<u>F.Y. 2014</u>	<u>F.Y.2015</u>
General Fund	\$0	\$0	\$0	\$0

Effective August 1, 2012.

EXPLANATION OF THE BILL

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, the amount of tax credits that can be allocated is limited to \$12 million per year.

Two requirements for a qualified small business are changed. As a general rule a small business must be in operation for less than ten years. The bill provides an exception to the rule and allows a qualified business to be in operation for less than twenty years if the business is engaged in the production of medical devices or pharmaceuticals. Also, the bill adds a new requirement that prohibits a qualified company from having its securities trade on a public stock exchange.

An investment in a qualified small business would be ineligible for the tax credit if the small business, within 180 days of receiving its investment, issues securities for trade on a public stock exchange or if the small business, within 180 days of receiving its investment, converts the investment for cash or any other form of equity or debt interest.

REVENUE ANALYSIS DETAIL

- Although the mix of companies qualifying for the tax credit may change, it is assumed the maximum amount of tax credits will continue to be allocated.

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

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