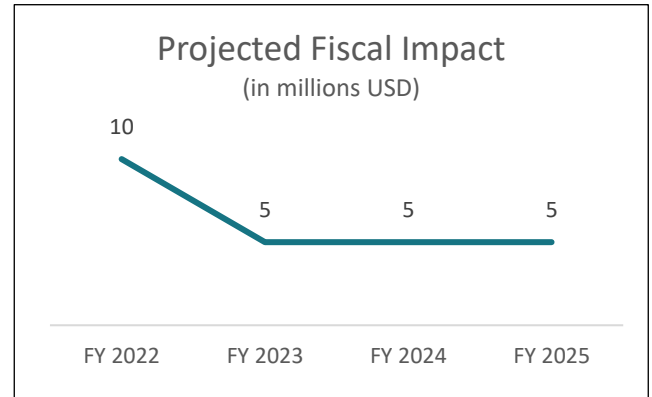


Angel Investment Credit

Tax Expenditure Initial Review - TEB 1.94

Tax Expenditure Facts

Year Enacted	2010
Statute	Minn. Stat. § 290.0692 and 116J.8737
Tax Type	Individual Income Tax
Provision Type	Credit
Latest Fiscal Impact Actuals	\$4,378,987 – Tax Year 2023 ⁱ
Latest Claims Actuals	231 investments in Tax Year 2023 ⁱⁱ
Expiration Date	January 1, 2025



Tax Expenditure Description

A refundable credit is allowed to investors for investments in a small business, provided that the investor or investment fund, the investment, and the small business each meet specified requirements. The credit is equal to 25 percent of the qualifying investment. The maximum credit for a tax year is \$250,000 for a married couple filing a joint return and \$125,000 for other filers.

A qualified investor is an individual who invests at least \$10,000 in a calendar year. A qualified investment fund is a pass-through entity that invests at least \$30,000 in a calendar year. A small business must have its headquarters and at least 51 percent of its employees and payroll in Minnesota. It must have fewer than 25 employees and be engaged in innovation in high technology or in developing a new proprietary technology. Other requirements are specified.

The total amount of the credit was limited to \$11 million for tax year 2010, to \$12 million per year for tax years 2011 through 2013, and to \$15 million for 2014 through 2016. Credit certificates are approved and issued by the Department of Employment and Economic Development. Any portion of a tax year's credits that is not allocated can be carried forward to a subsequent tax year.

This credit was enacted in 2010, for tax years 2010 through 2014. These provisions were modified in 2013. In 2014, the credit was increased and extended to tax year 2016. In 2019, the credit was extended to tax years 2019 and 2021, with a limit of \$10 million each year. In 2021, the credit was extended to tax year 2022 with a limit of \$5 million. In 2023, the credit was extended to tax year 2024 with a limit of \$5 million. The 2023 change is noted in the Projected Fiscal Impact chart above.¹

Additional Background Information

The Department of Employment and Economic Development's (DEED) 2023 annual report to the Legislature states 266 credit certificates were issued for the 2023 tax year, of which 231 made a qualifying investment. In

¹ The description provided in the 2022 Tax Expenditure Budget was edited to include the extension of the credit in 2023.

total, \$4,378,987 qualifying investments were made in the same year. The credits from a tax year that are not allocated can be carried forward to a subsequent year. Businesses that received investments reported hiring 133 new employees, and an additional 637 jobs classified as indirect hires (770 total jobs). Indirect hires are listed as contract workers, agency staffers, consultants, and others indirectly employed.ⁱⁱⁱ

Beneficiaries of this tax credit include small business investors who meet specified requirements. DEED administers the exemption and issues credit certificates. This tax expenditure reduces the amount of individual income tax revenue that would otherwise be collected. Income tax revenue is deposited in the state General Fund except as directed by Minnesota Statutes, section 290.62.

To be eligible for the tax credit, a business receiving the investment must:

- (1) apply and receive certification for the calendar year in which the investment was made prior to the date on which the qualified investment was made;
- (2) not issue securities that are traded on a public exchange;
- (3) not issue securities that are traded on a public exchange within 180 days after the date on which the qualified investment was made; and
- (4) not have a liquidation event within 180 days after the date on which the qualified investment was made.^{iv}

Proposed Tax Expenditure Objective for Consideration

The objective of the angel investment credit is to encourage investment in innovative small businesses in Minnesota.

Sources

The proposed objective for the angel investment credit is adapted from Minnesota Statutes section 116J.8737, subdivision 2, which defines qualified small businesses, and the second engrossment of omnibus tax bill H.F. 991, introduced during the 2021 regular legislative session.^v The statement of purpose listed in H.F. 991-2E was not included in subsequent engrossments, but the corresponding language extending the credit sunset date was included in later engrossments and in H.F. 9, the omnibus tax bill enacted during the 2021 first special session.

Potential Metrics and Performance Measures

Performance measures listed in H.F. 991-2E included “the increase in the number of businesses that receive these investments, the number of people employed by these businesses in the state, the productivity of these businesses, or the sales of these businesses.”^{vi}

DEED is required to annually produce a report to the legislature detailing the metrics of the program.^{vii} Such metrics include the number of credits issued, credit recipients, location of businesses receiving investments, the total amount of investment received by each business, among other required metrics. This report can be used to monitor the change in these metrics between years to determine the impact of the program.

A report was prepared in 2014 for the Minnesota Legislature evaluating the angel tax credit program from 2010 to 2012. While this study does not include data from before the enactment of the program, it does show a marked increase in investment through the first years of the angel investment credit program.^{viii}

Contact Information and Disclaimer

This tax expenditure review was prepared by the Legislative Budget Office for the Tax Expenditure Review Commission pursuant to Minnesota Statutes 2023, section 3.8855, subdivision 4.

Notice: Proposed tax expenditure objective statements are not binding authority and should not be used as a legal interpretation of any tax expenditure statute.

For questions regarding this review, please contact the Legislative Budget Office at 651-297-7146 or lbo@lbo.mn.gov.

For more information, please visit the [Tax Expenditure Review Commission website](#).

ⁱ Minnesota Department of Employment and Economic Development, *Minnesota Angel Tax Credit Program: 2023 Annual Report*. March 8, 2024. Pages 7-8. https://mn.gov/deed/assets/2023-atc-annual-report_tcm1045-614285.pdf

ⁱⁱ Ibid.

ⁱⁱⁱ Ibid.

^{iv} Minnesota Statutes 2023, section 116J.8737, subdivision 2(e).

^v Minnesota House Omnibus Tax Bill, HF991-2E, 92nd session (2021), https://www.revisor.mn.gov/bills/text.php?number=HF991&version=2&session=ls92&session_year=2021&session_number=0. The purpose statement begins at line 210.23.

^{vi} Ibid.

^{vii} Minnesota Statutes 2023, section 116J.8737, subdivision 9.

^{viii} Economic Development Research Group, *Evaluation of the Minnesota Angel Tax Credit Program: 2010-2012*. January 31, 2014. https://www.revenue.state.mn.us/sites/default/files/2014-02/evaluation_of_the_mn_angel_tax_credit_program.pdf.