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The Minnesota Small Business Investment Credit (commonly referred to as the angel investment credit) provides qualified investors in certified small businesses with a refundable income tax credit equal to 25 percent of their investments up to an annual maximum of \$125,000 (\$250,000 for married joint filers). The lifetime maximum credits for investments in a single business cannot exceed \$1 million. The credit took effect for tax year 2010 and expires for investments made after tax year 2024.

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## Main requirements and qualifying investors

Three key sets of requirements apply under the credit:

- Rules that govern which investors qualify to make investments
- Rules specifying the types of businesses that qualify to receive investments
- Limits on which investments qualify

The angel credit allows two different types of investors to qualify for the credit:

- Individual investors qualify either by being accredited investors under Securities and Exchange Commission Regulation D or by certifying that they will only invest in certain types of securities whose issuance is limited by state or federal law (Small Corporate Registration Offerings, Limited Offering Exempt Transactions, or MNVest Offerings). Accredited investors must have net worth of at least \$1 million (excluding the value of their home(s)) or annual income of at least \$200,000 (\$300,000 for married couples). Individuals who are officers of or who in combination with their family members own or control 20 percent or more of the business cannot claim the credit.
- Qualified funds are pass-through tax entities that invest in qualifying small businesses and have three or more investors who each meet the requirements for individual investors. These funds pass through the credit to their owners, who claim it on their tax returns.

Investors must apply to and be certified by the Department of Employment and Economic Development (DEED) before making the investment for which they are claiming the credit. However, individuals who are not accredited investors but who qualify because they are investing in certain securities described in the first bullet above may apply up to 30 days after making the investment.

## Qualifying small businesses

The credit only applies to investments in a small business that DEED certifies:

- Has its headquarters and 51 percent of its employees and payroll in Minnesota;
- Is engaged in a specified field of business involving proprietary technology, products, processes, or services;
- Has fewer than 25 employees;
- Pays most of its employees wages equal to at least 175 percent of the federal poverty guideline for a family of four;
- Has not been in operation for more than ten years (20 years for businesses developing drugs or medical devices that require approval by the U.S. Food and Drug Administration); and

- Has not received more than \$4 million in private equity investment.

## Qualifying investments

To qualify for the credit, an investment must:

- Be made in cash;
- Satisfy minimums of either \$7,500 (for individuals investing in greater Minnesota businesses, or veteran-, minority-, or women-owned businesses), \$10,000 (all other investments by individuals), or \$30,000 (investments by qualified funds); and
- Receive in return an equity-type interest (e.g., common stock, partnership interest, preferred stock, or debt with a mandatory conversion to equity).

## State costs of the credit

The credit may not exceed a specified dollar amount per year and the legislature may modify this amount, or cap, from year to year. For taxable years 2022 through 2024, the cap is \$5 million. In taxable year 2021 the cap was \$10 million. The credit was not funded for 2018 or 2020. Some of these credits may be paid as refunds (rather than reducing tax liability), since the credit is refundable. If the full amount of the cap is not allocated for a year, the unused amount rolls over to the next year until the entire amount is allocated. DEED administers the limits by allocating dollar amounts of credits to applicant investors on a first-come, first-served basis. Once an investment is made, DEED then issues a credit certificate, which a taxpayer uses to claim the credit through the Department of Revenue.

## Businesses and investors benefitting from the credits

The table shows the number of investors (including those investing in funds) and businesses for 2021 through 2023:

Calendar year:	2021	2022	2023
Number of businesses	83	48	50
Number in metro area	77	44	45
Percentage of \$ in metro area	97%	87%	95%
Number of investors	611	408	518

Half the allocation is reserved for investments in greater Minnesota and in veteran-, women-, and minority-owned businesses; any reserved amounts not allocated by September 30 become available for other qualifying investments.

## Clawback provisions and reporting requirements

The law provides for revocation and repayment of the credit if the in-state employment and payroll requirements are not met for each of the five years following the year the investment was made. The required repayment declines by 20 percentage points per year (100 percent in year one, 80 percent in year two, etc.). The business, not the investors, must make the repayment. Also, investors or funds that do not maintain their investment in the small business for at least three years must repay the credit.

Investors, funds, and small businesses must annually report to DEED on their compliance with the law. DEED annually reports to the legislature.



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