



EMPLOYMENT AND
ECONOMIC DEVELOPMENT

Angel Tax Credit

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Who We Are

The Minnesota Department of Employment and Economic Development (DEED) is the state's principal economic development agency.

DEED programs promote business recruitment; expansion and retention; international trade; workforce development; and community development.



How We're Organized

**Economic
Development**

**Workforce
Development**

**Workforce
Services**

**Strategic
Communications
and Research**

Operations



Economic Development

This division includes:

- Broadband Development
- Business Development
- Business Finance
- Community Finance
- Launch Minnesota
- Minnesota Trade Office



Angel Tax Credit

2010-2021: \$500M invested in 500+ startups

What is the Angel Tax Credit Program?

- 25% refundable tax credit for investors who make equity investment in qualified small emerging businesses

Who uses the program?

- Businesses, Investors, and Funds

2021 Funded with \$10M

~\$75K remaining as of 12/15



Angel Tax Credit – 2022 Funding

\$5M total available January 1, 2022

- \$2.5M Reserved credits (until 9/30)
 - Women-owned
 - Minority- owned
 - HQ in Greater Minnesota
- \$2.5M General credits



General credits



Reserved credits

Now accepting 2021 and 2022 applications

Image credit: Getty Images/iStockphoto Copyright: ZargonDesign

Angel Tax Credit – Investor

Investor qualifications:

- Natural person; and
- Accredited investor per SEC Reg. D's Rule 501; or
- Non-accredited investor investing in an exempt transaction

Qualified investment:

- Minimum qualifying investment of \$10,000 or \$7,500 if investing in a woman/minority/veterans-owned and managed business, or a business located in Greater Minnesota.

Maximum credit per year for investors is \$125,000/\$250,000 for single/married filing jointly

Angel Tax Credit – Fund

Fund qualifications:

- Organized as a pass-through entity (S-Corp, LLC, partnership)
- Minimum of three qualifying investors who are natural persons
- \$30,000 minimum investment

Credit maximum is at the investor level: \$125,000/\$250,000 for single/married filing jointly

Angel Tax Credit – Ineligible Investors

Who is not eligible for the tax credit?

- An officer (a person elected or appointed by the board to manage the business), or
- A principal (a person having authority to act on behalf of the business), or
- A person who owns, controls, or holds the power to vote 20 percent or more of the outstanding securities of the business, individually or combined with family members, or
- A family member (siblings, spouse, ancestors and lineal descendants) of the above

Angel Tax Credit – Business

Business qualifications:

- Headquartered in MN
- Been in operation 10 years or less (20 years if medical devices or pharmaceuticals requiring FDA approval)
- Less than 25 employees. No minimum required
- Previously raised less than \$4M in equity investment
- Pay employees at least \$22.30/hour

Angel Tax Credit – Business

Business qualifications continued:

- Technological Innovation Qualification or researching or developing a proprietary product, process, or service in a qualified high-tech field
 - Qualified high-technology fields include, aerospace, agricultural processing, renewable energy, energy efficiency and conservation, environmental engineering, food technology, cellulosic ethanol, information technology, materials science technology, nanotechnology, telecommunications, biotechnology, medical devices, pharmaceuticals, diagnostics, biologicals, chemistry, veterinary science, or similar.
- Be certified by DEED before investment is made. The non-refundable certification filing fee is \$150.

All certifications are valid for the calendar year.

Angel Tax Credit – Process

The Angel Tax Credit is a four-step process. Steps 1-2 must be approved before a qualifying investment is made.

1. Business files Certification Application and \$150 filing fee. Certifications are valid for the calendar year
2. Joint Credit Allocation Application (business initiates)
3. Proof of investment (business)
4. Annual Report (5 years)

Investor files a Minnesota tax return to claim the refundable tax credit

Angel Tax Credit – Business Application

What does a business need to apply?

- Business description – tell us how the business’s technology is proprietary
- Balance sheet or capitalization table (in dollars)
- Authorizing board resolution
 - [Sample 1](#)
 - [Sample 2](#)
- Most recent payroll register (if applicable)

[Review application guide](#) and [apply online](#)

Angel Tax Credit

- Sarah Miller, Angel Tax Credit Program Lead
- Call us on the Angel Hotline at 651-259-7599
- Email us at Angel.credit@state.mn.us

- Stephen Wolff, Interim Manager, Business Tax Benefit Unit
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Program Resources

Program resources:

- Angel Tax Credit Program main page: <https://mn.gov/deed/business/financing-business/tax-credits/angel-tax-credit/>
- FAQs': <https://mn.gov/deed/business/financing-business/tax-credits/angel-tax-credit/faqs/>
- Read DEED's publication on Minnesota Angel Tax Credit: https://mn.gov/deed/assets/MN-angel-tax-credit-2021_ACC_tcm1045-133715.pdf

Frequently Asked Questions

[May an investor use IRA funds to make a qualified investment?](#)

- Yes. Investors may use IRAs to fund their qualified investments, but are strongly urged to seek advice of tax counsel to determine the possible serious negative tax consequences of tapping the funds. Tax credits will be issued to investors in their capacities as natural persons.

[May an investor use a trust or other vehicle to make the investment?](#)

- An investor may use their revocable trust (though not an irrevocable trust) or their IRA as their investment vehicle, as long as a clear audit trail is provided showing the investor is the "owner" of that vehicle. Similarly, a sole member LLC can be used to make the investment, as long as evidence (such as the official member list created and submitted when the LLC is incorporated) is provided that the investor is the owner and sole member of the LLC. Other pass-through entities, such as S or C corps, may not be used.

Frequently Asked Questions

Is a trust considered a natural person that may seek certification as a Qualified Investor?

- An irrevocable trust is a separate legal entity, which is not a natural person. A revocable trust, on the other hand, is not a separate entity from the grantor. Investors should seek certification in their names, but may their use revocable trust assets to fund their qualified investments. Tax credits will be issued to the investor in their name.

Frequently Asked Questions

What “insiders” are not eligible for the credit?

Investors who, of the business in which the investment is made, are an officer (a person elected or appointed by the board to manage the business); or a principal (a person having authority to act on behalf of the business); or a 20% or more owner, individually or combined with family members, of the voting securities of the business, or a family member (siblings, spouse, ancestors and lineal descendants) of any of these persons.

A Qualified Investor seeking a credit allocation may not receive more than 50% of his or her gross income from the qualified small business in which the investment is being made (or be a family member of an individual who receives more than 50% of his or her gross income from the qualified small business in which the investment is being made).

Frequently Asked Questions

Are convertible loans considered equity investment?

If convertible loans have a non-conditional, mandatory conversion requirement, they are considered equity. It is mandatory that such debt must convert, without condition, to equity within the three-year annual reporting requirement period for investors. In addition, due to a 2013 law change restricting liquidity events, convertible notes cannot convert to equity within 180 days of the investment in order for the investment to be eligible for the Angel Tax Credit. Businesses are encouraged to submit a proposed convertible note to DEED for review before the investment is made to ensure the note's clauses regarding these two provisions falls within the program's requirements.

Frequently Asked Questions

What is the tax effect of receiving the Minnesota Angel Tax Credit?

- The IRS has determined that the credit is taxable income. The Minnesota Department of Revenue will issue you a 1099-MISC in the amount of the credit and it needs to be reported on your federal 1040 as income. It is also income for Minnesota state income tax purposes and is considered Minnesota-sourced income.

How long does a qualified investor need to hold the investment and are there any exceptions?

- Investors are required to hold the investment for three years, with the year the investment is made counting as the first year no matter what date the actual investment occurred. Exceptions to this requirement include 1) the investment becomes worthless before the end of the three-year period, 2) 80% or more of the assets of the qualified small business are sold before the end of the three-year period, 3) the qualified small business is sold before the end of the three-year period, 4) the qualified small business's common stock begins trading on a public exchange before the end of the three-year period, or 5) the investor is deceased.