

March 31, 2025

	Yes	No
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 2879 (Rest) / H.F. 2723 (Norris)

	Fund Impact			
	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(000's)			
General Fund	(\$10,000)	(\$10,000)	(\$10,000)	(\$10,000)

Effective beginning with tax year 2025 through 2028.

EXPLANATION OF THE BILL

Current Law: The angel investment tax credit is the commonly used name for a provision identified in statute as the small business investment tax 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. No more than \$1 million in credits can be allocated to any one qualified small business over all taxable years.

The law specifies the requirements for the investor, the investment fund, the investment, and the small business. Among other requirements, a qualified business may not have received more than \$4 million in private equity investments. The credit may be revoked if the qualified investor or fund does not hold the investment in the qualified business for at least three years.

For each tax year, 50% of credits must be allocated to qualified investments in minority-owned, women-owned, or veteran-owned qualified small businesses in Minnesota.

The credit is limited to \$5 million each year for tax years 2022 through 2024, after which the credit is set to expire.

Proposed Law: The bill increases the maximum private equity investment that a qualified business may receive from \$4 million to \$15 million.

Qualified investors and funds would have to hold investments in the qualified small business for five years rather than three years.

Additionally, the allocation for minority-owned, women-owned, or veteran-owned businesses would apply to a business that qualified at any time as a greater Minnesota small business or a minority-owned, women-owned, or veteran-owned small business in Minnesota.

The bill also would extend the credit for tax years 2025 through 2028, with a maximum credit of \$10 million each year.

REVENUE ANALYSIS DETAIL

- It is assumed that the maximum credits would be allocated per year.
- Tax year impacts are allocated to the following fiscal year.
- The changes in eligibility may affect which businesses receive the credit but will not affect the overall total.

Number of Taxpayers: Approximately 400 returns claimed the credit in tax year 2023.

Minnesota Department of Revenue
Tax Research Division
[https://www.revenue.state.mn.us/
revenue-analyses](https://www.revenue.state.mn.us/revenue-analyses)

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