

HOUSE RESEARCH

Bill Summary

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Overview

This bill provides an income and corporate franchise tax credit for equity and debt investments in regional funds that invest in qualifying small businesses. Funds must be certified by the Department of Employment and Economic Development (DEED) to qualify. The total amount of credits is capped at \$250,000 per fund and DEED can certify up to ten funds for a total cost of \$2.5 million.

Section

1 **Regional investment credit.** Allows a credit against the individual income tax and the corporate franchise tax (including both alternative minimum taxes, but not the minimum fee that applies to businesses) for investments in regional investment funds. The credit is limited to the amount certified by the commissioner of DEED. The fund must provide a credit certificate to the investor for the investor to claim the credit. In addition, maximum dollar limits (left blank in the bill) apply to single, married joint, and corporate franchise taxpayers.

Fund qualifying rules. To qualify a fund must meet the following requirements:

- Be a pooled investment fund investing in qualifying small businesses
- Have at least 2/3rd of its governing body be residents of the region

Section

- Invest in equity investments or interest paying notes
- Allocate 70 percent or more of its investments to qualifying small businesses that meet local community needs
- Be certified by DEED

Qualifying small businesses rules. Qualifying small businesses must:

- Have annual revenues below a dollar threshold (left blank in the bill)
- Employ 50 or fewer full-time employees
- Pay 75 percent or more its employees at 175 percent of the federal poverty level for a family of four.

Funds are to apply to the commissioner of DEED for certification as qualified funds. The commissioner can certify up to ten funds with \$250,000 of credit certificates per fund. Only three of the certified funds may serve more than 15 counties. The commissioner is to attempt to certify funds that are broadly dispersed (serve regions) across the state. Only 25 percent of the certified funds may serve the Twin Cities metropolitan area. The bill has a blank limit or cap on the total amount of certificates; however, this amount cannot exceed \$2.5 million based on \$250,000 per fund limit and 10-fund limit (\$250,000 per fund * 10 funds = \$2.5 million).

In return for certification, the fund must agree to allocate 70 percent of its investments to small businesses that serve community needs.

Credits that exceed the liability for tax are carryovers to the following 15 tax years.

Effective date: Tax year 2007.