HOUSE RESEARCH

Bill Summary

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Subject: Angel investment grants and single sales apportionment

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Overview

Authorizes an angel investment grant program to be administered by the commissioner of the Department of Employment and Economic Development (DEED). Grants equal one-third of investments made in qualified business ventures, up to a maximum of $100,000 per investor and $500,000 per business. Businesses receive provisional certification from DEED as meeting the requirements for a qualifying business venture, and then grants are awarded on a first-come, first-served basis to businesses as they document having received financing from qualified investors or funds.

Restructures the phase-in of single sales factor apportionment.

Section

1 **Angel investment grant program.** Provides grants for angel or early stage venture capital investments by individuals or funds.

Subd. 1. Definitions. Defines the following terms:

- **Immediate family** means the investor's parent, sibling, or child, or any of their spouses.
- **Qualified business venture** is any business engaged in a manufacturing, processing or assembling biotechnology or medical device products, including products for use in agriculture, biotechnology or medical device research and development, high-technology, or qualified green manufacturing, relating to renewable energy, energy efficiency, reduction greenhouse gas emissions, monitoring surface waters, expanding use of biofuels, or reducing waste products, and is not engaged in real estate development, insurance, banking, retail or wholesale trade, professional services, construction, transportation, health care or similar ventures. The business must have its headquarters and 51 percent of its employees and payroll in Minnesota. It must have fewer than

25 employees and less than $2 million or more in gross receipts. (Nor can it be an affiliate or subsidiary of a company that is larger than those measures.) The business cannot have received more than $2 million in equity investment. Businesses with five or more employees must provide minimum wage and benefit amounts to 75 percent of its employees in excess of the first five. These minimums equal 175 percent of federal poverty level for a family of four.

- **Qualified investor** is either a qualified individual investor or a qualified investment fund.
- **Qualified individual investor** is defined as an accredited investor under SEC Reg D (generally requires net worth of $1 million or annual income of $200,000 or more, $300,000 for a married couple) who does not own or control 20 percent or more of the voting power of the qualified new business venture and does not receive more than 50 percent of the income from the business. A qualified individual investor may not be an immediate family member of an individual who either controls 20 percent or more of the business venture or receives 50 percent of the income from the business.
- **Qualified investment fund** is a pooled investment fund that invests in qualifying business ventures and is organized as a pass-through entity with at least five investors who are qualified investors.
- **Qualified private investment** is an equity investment made in a qualifying business venture by a qualified investor.

Subd. 2. Angel grants authorized. Authorizes the commissioner of DEED to make grants equal to one-third of investments in qualified business ventures that have received at least $100,000 in qualified private investments. The total grant for a business venture is one-third of the investment made by each investor, up to a maximum of $100,000 per investor, and a maximum of $500,000 for a business.

Subd. 3. Application; provisional certification of qualified business ventures. Directs qualified business ventures to apply to the commissioner of DEED for provisional certification, and pay an application fee of $250. Directs the commissioner to provide provisional certification to business ventures that meet the requirements of this section. The certification states the maximum grant to which the business would be entitled, and expires 12 months after it is issued, with the commissioner authorized to grant a 90-day extension to businesses that demonstrate that they intend to close on financing within that time period. Requires the commissioner to maintain on the DEED website a listing of business ventures that have been issued provisional certificates, the dollar amount certified for each business, and the remaining available funding.

Subd. 4. Grant awards. Directs the commissioner to award grants to businesses with provisional certificates on a first-come, first-served basis when they demonstrate that they have received qualifying investments. If insufficient funding is available to provide grants to all businesses that receive financing, businesses retain priority for subsequent years' grant appropriations.

Subd. 5. Appropriation. Appropriates $11 million in fiscal year 2011, $14 million in fiscal year 2012, and $15 million in fiscal year 2013 to make angel grants under this section. Amounts do not cancel until expended, except that any amounts remaining unexpended on October 15, 2013, cancel at that time.

Subd. 6. Repayment obligation. Requires a qualified business venture that received one or more grants to repay amounts received in the current year and four preceding years if the business no longer has its headquarters in Minnesota, or no longer has at least 51 percent of its employees and payroll in Minnesota.

Subd. 7. Data availability. Makes data collected by the commissioner in administering the grant program non-public, but provides that information related to provisional certification of qualified business ventures is public, including the name, address, and amount of provisional grant certification for each business. In effect this makes data related to investors and funds nonpublic.

Subd. 8. Report. Requires the commissioner to report annually to the economic development committees of the legislature on the number and amount of grants awarded, with information on the number of employees and payroll and geographic distribution of businesses receiving grants. Provides that the reports must preserve proprietary information of the businesses, but provide sufficient data for the legislature to evaluate the costs and benefits of the program. Allows for more detailed information to be provided to researchers who enter into agreements to protect nonpublic information.

Subd. 9. APA exemption. Provides DEED is exempt from rulemaking under the Administrative Procedures Act in establishing procedures and requirements to administer grants.

Subd. 10. Sunset. Provides DEED's authority to make grants expires on June 30, 2013, but allows grants made before that date to be paid through October 15, 2013.

Effective date. Effective July 1, 2010, for investments made after qualified business ventures have been certified by the commissioner of DEED.

2 **Sales factor apportionment.** Restructures the phase-in to 100 percent sales factor apportionment so that the sales factor percent is lower in tax years 2009 to 2012 than it would have been under present law, but reaches 100 percent in tax year 2014 and later years as under present law.

Tax year	**Sales factor, current law**	**Sales factor, H.F. 2580**
2010	87%	84%
2011	90%	84%
2012	93%	87%
2013	96%	96%
2014 and following	100%	100%