

DRAFT – For Review and Discussion Purposes Only

Draft of Small Business Investment Tax Credit (SBITC)
(Angel Investor Tax Credit)

Chief Authors: Senator Kathy Saltzman; Representative Jim Davnie

Making the Case for Investment Tax Credit

The Problem: Minnesota was a leader in various technologies but we are living on past laurels!

- Computer Industry Twenty years ago, Minnesota held a premier technology rank (#2 in computer jobs) in the United States as the center of the computer industry. An industry that was largely founded in the state. As this industry evolved, the technology based shifted to other regions of the country along with a significant portion of that caliber of talent. Today, less than 6% of the Minnesota workforce is employed in a high technology position.
- Medical Device Industry. Minnesotans consider the state a medical device leader. When asked, they point to Medtronic, St. Jude Medical and Boston Scientific (which acquired MN company SciMed Life Systems) as stellar examples of Minnesota leadership. But Medtronic was founded in 1954, SciMed in 1971, and St. Jude Medical in 1976. The high value-added, successful companies are over 30 years old!
- Minnesota is failing as a generator of new business ideas
 - The medical technology industry is growing at a rate of 15% per year nationally, but Minnesota is barely participating in that growth
 - Biologic and biopharmaceutical products are converging with medical devices. Minnesota is not a leader in the convergence of these industries and is at risk of losing its dominate role in the device industry because we have not kept pace with development of biological skill sets needed for the evolution of the medical device industry
 - Minnesota is 48th in new company formation
 - Minnesota is 15th in Venture Capital (VC) Investments

Our economy has paralleled the high technology migration out of the state. In contrast, other states have executed clear robust strategies to induce high technology saturation in their regions and are producing significant growth of their state's economies.

Our Competition: What other states have done to grow and overcome Minnesota's initial lead:

Other states have established programs to attract high-tech business and highly-skilled job generating ideas. Prominently among these programs are Angel Investor Tax Credits. Without those early "Angel" investments, companies cannot be started, grow or create jobs. As a result, ideas for companies start in Minnesota and move elsewhere to secure funding—taking their job creation with them. Several high profile companies have left the state recently in search of seed capital.

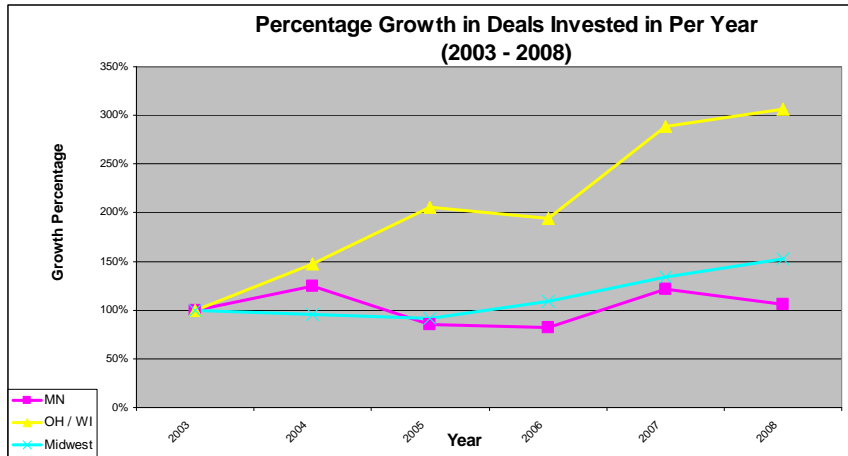
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WI and OH are two states which have increasingly attracted companies from MN. They offer angel tax credit and 5 years ago had 1/3 to 1/10 the number of deals per year of Minnesota.. Over the last 5 years, Ohio and Wisconsin together have grown from half of MN’s level of venture deals in 2003 to more than 50% greater than MN in 2008 and during that period grown over 210% where MN has shrunk 5% !.

Number of Deals Invested In Per Year

State	2003	2004	2005	2006	2007	2008	03-'08 change
MN	40	44	32	31	47	38	-5.0%
OH & WI	19	30	39	38	54	59	210.5%
Rest of Midwest	128	120	116	146	180	214	67.2%

The same can be seen for the rest of the Midwest which has grown 67% in the same time period.



Data Courtesy of Price Waterhouse MoneyTree Report

Today’s venture capitalists look for states with a strong commitment to angel investment as grounding for consistent deal flow. Due to competition with states offering tax incentives to angel investors, Minnesota is losing its Midwest leadership position in per capita venture investment. From a national perspective, Minnesota can claim only a third of the per capita investment level enjoyed by California and Massachusetts.

The Small Business Investment Tax Credit (SBITC)

One critical component of encouraging creation of high technology businesses is by providing incentives to angel investors to support the high-risk activity of creating new technology based start up companies.

Twenty-nine (29) other states have implemented angel tax credits, including most states in the Midwest region. To compete effectively with this growing trend, Minnesota must level the field and join in. A tax credit will entice angel investors to invest locally, here, in Minnesota.

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The SBITC has been modeled after other states' successful programs and provide a 25% tax credit to qualified investors. This program will initially run 4 years. Start-up companies and investors seeking to access the credit must apply in advance for qualification. The credit will provide \$15 million per year in tax credits with an annual maximum to any individual investor of \$125,000 for all qualifying investments in that year. Excess credits may be carried over for ten years. Claims for tax credit may be reviewed beginning July 1, 2010.

Bringing Minnesota up to speed and past the finish line

In an increasingly globalized economy, Minnesota's competition is not only next door, it is across the country and around the world. It is critical for the Legislature to take action in the next session to make Minnesota more attractive for start-ups and their early investors to grow businesses and put down roots. Innovation is Minnesota's heritage and must be its future.

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Key Term Summary

Qualifying Businesses must qualify in advance of being eligible for the SBITC

- headquarters and at least 51 percent of employees in Minnesota
- not been in operation for more than ten consecutive years;
- fewer than 100 employees and minimum wage considerations
- investment of less than \$2M to date

Company must be based upon proprietary technology to add value to a product, process, or service in a qualified high-technology field;

Excludes non-technologically innovative fields but include high-tech innovation in non-tech fields

Fields are broad to include aerospace, agricultural processing, alternative energy, environmental engineering, food technology, cellulosic ethanol, information technology, materials science technology, nanotechnology, telecommunications, biotechnology, medical device products, pharmaceuticals, diagnostics, biologicals, and veterinary science..

Tax Credits Available:

- 25% of qualified investments up to \$4M of investments for \$1M in credits per invested company

Investors must be accredited and apply in advance to be qualified for the credit

- may not be majority holders or family of majority holders in the qualified business
- may be an angel fund or network
- the annual limit per individual investor is \$125k in credits (1st \$500k in investments apply)
- deductible against MN taxes due and may be carried forward 10 years
- investment must be held a minimum of 3 years unless company is sold or fails or a pro rate portion of the credit is clawed back

Fees for applying shall be charged to the business to qualify and the investor to apply for the credit

DEED shall make the forms available via website in advance of the start date of July 1, 2010

- has reporting requirements on funds used and remaining availability on an annual basis

Participants in Development of this Legislation:

John J. Alexander, President Business Development Advisors, Chairman & Founder, Twin Cities Angels™ Funds; Peter T. Bianco MBA, Director of Life Science Business Development, Halleland Health Consulting; Life Science Alley; Minnesota High Tech Association; BioBusiness Alliance; RainSource Funds.

\attached draft of detailed Bill

Signature Pages: I stand in support of the Small Business Investment Tax Credit

Print Name: _____

Home City: _____

Signature: _____

Home ZipCode: _____

Title: _____

Company City: _____

Company: _____

Company ZipCode: _____

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Print Name: _____

Home City: _____

Signature: _____

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