

**“Angel Investment”
Small Business Capital Investment Incentive
Program Summary**

(Established under A.R.S § 41-1518)

In 2005, the Arizona Legislature established the Small Business Capital Investment Incentive (Angel Investment) program. The program is effective July 1, 2006 through June 30, 2011. The main objective of the Angel Investment program is to increase investments in targeted Arizona small businesses. The program accomplishes this goal by providing tax credits to investors who make investments in targeted small businesses certified by the Arizona Department of Commerce (Commerce).

Arizona statutes provide non-transferable tax credits totaling \$20 million during the life of the program. These tax credits are authorized by Commerce on a first come, first served basis. The following is a brief summary of the incentive offered by the Angel Investment program.

Income Tax Credit

An investor must document to Commerce the investment was made in a qualified small business. If the investment is made in a qualified small business that is also a bioscience or rural company, the tax credit may total up to 35% of the investment amount over three years; for any other qualified small business, the tax credit may total up to 30% over three years. If the tax credits exceed the income tax liability, any unused tax credit amount may be carried forward for up to three taxable years as long as the investor timely claims the credits with the Arizona Department Revenue. The investor can begin claiming the tax credits on the tax return for the year following the investment. The tax credit table is as follows:

<u>35% for a Rural or Bioscience Company</u>		<u>30% for Any Other Qualified Business</u>	
1 st Year Credit:	12% of the investment	1 st Year Credit:	10% of the investment
2 nd Year Credit:	12% of the investment	2 nd Year Credit:	10% of the investment
3 rd Year Credit:	11% of the investment	3 rd Year Credit:	10% of the investment

The Arizona Department of Commerce accepts applications year round and determines eligibility for program benefits. Only qualified investors are eligible to receive tax credits. However, all of the following criteria must also be met at the time of investment to generate a tax credit.

Investor

A qualified investor must be either an individual, limited liability company, partnership, or an S corporation. Also included are family or grantor trusts. **Excluded are corporations subject to tax under title 43, chapter 11, such as C corporations, and certain trusts, such as irrevocable trusts and IRA’s or similar retirement accounts.** To receive an income tax credit, the applicant must invest at least \$25,000 in a qualified small business. Further, the investor, along with its affiliates, cannot possess more than 30% of the total voting power of all equity securities of the qualified small business. Once the investor and its affiliates have received tax credits on investments in certified small business exceeding \$250,000 in a calendar year, the investor is no longer eligible to receive credits for further investments in certified small businesses in that year.

Investment

A qualified investment is an equity security totaling at least \$25,000 cash or cash equivalent and must be reported to Commerce within 30 days of the date of the investment. There is also a cap where the maximum voting power of all equity securities of a qualified small business may not exceed thirty per cent for an investor and his affiliates.

Small Business

A qualified small business must be either a corporation, limited liability company, partnership or other business entity exclusive of a sole proprietorship. To be certified for a twelve-month period, the business must be in the early stage of development. It must also maintain a portion of its operations in Arizona and employ at least two full-time equivalent Arizona residents. The small business cannot have assets exceeding \$2 million, exclusive of intellectual property and qualified investments, and must not be principally engaged in statutorily precluded activities, which include activities that involve human cloning or embryonic stem cell research. The maximum amount of qualified investments in a small business that generate tax credits shall not exceed an aggregate of \$2 million for all years.

Questions regarding the Angel Investment Program can be directed to smallbusinessangel@azcommerce.com

