

# "ANGEL INVESTMENT" SMALL BUSINESS CAPITAL INVESTMENT INCENTIVE

(ESTABLISHED UNDER A.R.S §41-1518)

## SUMMARY

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, 2016. The main objective of the Angel Investment program is to expand early stage 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 Commerce Authority (ACA).

Arizona statutes provide non-transferable tax credits totaling \$20 million during the life of the program. These tax credits are authorized by the ACA on a first-come, first-served basis.

## INCOME TAX CREDIT

An investor must document to the ACA 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. Tax credits can be claimed as follows:

### 35% for a Rural or Bioscience Company

- 1<sup>st</sup> Year Credit: 12% of the investment
- 2<sup>nd</sup> Year Credit: 12% of the investment
- 3<sup>rd</sup> Year Credit: 11% of the investment

### 30% for Any Other Qualified Business

- 1<sup>st</sup> Year Credit: 10% of the investment
- 2<sup>nd</sup> Year Credit: 10% of the investment
- 3<sup>rd</sup> Year Credit: 10% of the investment

The ACA 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, S corporation or a partnership. To receive an income tax credit, the investment in a qualified small business must be at least \$25,000. 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 a single small business exceeding \$250,000, the investor is no longer eligible to receive credits for further investments in that small business 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 the ACA within 30 days of the date of the investment.

## 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 12-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 \$10 million, exclusive of intellectual property and qualified investments. Further, the business must not be principally engaged in activities precluded by statute and by the ACA, 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.

**ADDITIONAL INCENTIVE:** For tax year beginning from and after December 31, 2013, Arizona will also offer the elimination of capital gains tax on income derived from investments in companies certified by ACA. (A.R.S. §43-1022(36))

