

Legislative Analysis



ANGEL INVESTOR AMENDMENTS

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House Bill 4353

Sponsor: Rep. Ed Clemente

Committee: New Economy and Quality of Life

Complete to 2-20-09

A SUMMARY OF HOUSE BILL 4353 AS INTRODUCED 2-18-09

The bill would amend a provision of the Income Tax Act (MCL 206.30) that allows a deduction from taxable income for gains made from certain equity investments in new Michigan-based "competitive edge technology" businesses. It would lower the amount of the investment needed to qualify for the deduction and extend the deadline for such investments.

Public Act 214 of 2005 amended the Income Tax Act to create a new deduction equal to **all or a portion of the gain** realized from an initial equity investment of at least \$100,000, if the taxpayer's basis in the investment plus the gain, or a portion of it, is reinvested in an equity investment in a "qualified business" within one year after the initial gain was realized. This deduction applied beginning in the 2007 tax year, and initial equity investments must be made before December 31, 2009.

House Bill 4353 would allow the deduction when the total initial investment is \$25,000, rather than \$100,000. Further, it would apply to investments made before December 31, 2011, rather than 2009.

A "qualified business" is one that meets all of the following criteria: (1) is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003 (MCL 125.2233); (2) has its headquarters in Michigan, is domiciled in Michigan, and has a majority of its employees working in Michigan; (3) has a pre-investment valuation of less than \$10 million; (4) has been in existence less than five years (although this does not apply to business doing research at a college or university or a tax-exempt organization); (5) is engaged only in competitive edge technology; and (6) is certified by the Michigan Strategic Fund as a "qualified" business. ("Competitive edge technology" means advanced automotive, manufacturing, and materials technology; alternative energy technology; homeland security and defense technology; and life sciences technology.)

FISCAL IMPACT:

This bill would reduce income tax revenue by an indeterminate amount. The fiscal impact depends on the gains realized from initial equity investments and the reinvested amounts as specified in the bill. This bill would have no direct fiscal impact on local units of government.

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