

Study: MN angel tax credits spurred \$72M in investments through 2012

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Minnesota's Angel Tax Credit program spurred \$71.7 million in angel investments between 2010 and 2012, [according to an independent study commissioned by the Department of Revenue](#).

The state issued \$34.2 million in tax credits under the program during the same three-year period, the study said, meaning that "each dollar of credit is matched by \$1.09 in new angel investment." The study also linked the program to the creation and retention of 512 jobs.

The total amount of investments that qualified for the 25 percent tax credit over the three years was \$138.6 million. Of that, \$71.7 million wouldn't have happened without the tax credit, the study determined through investor surveys.

An angel investor is typically a high-net-worth individual or a fund that invests in early-stage companies.

"The Angel Tax Credit program has a proven track record of success in assisting promising startups in their early stages of development," said Katie Clark Sieben, commissioner of the state's Department of Employment and Economic Development, which manages the program. "This independent study highlights a number of positive ways the Angel Tax Credit is impacting Minnesota's small business community."

The study, conducted by the Economic Development Research Group, will inform the Legislature's decision on whether to renew the Angel Tax Credit program during its upcoming session -- the program is set to expire after this year.

The Small Business Investment Tax Credit -- better known as the Angel Tax Credit -- was established in April 2010 to moderate the negative effects of the recession on investment in Minnesota's small businesses, especially those in the technology sector.

Qualified investors and small businesses must apply to DEED for certification before participating in the program.

Steve Mercil, CEO of Rain Source Capital, organizes and advises investment groups in Minnesota and six other states. His clients actively look for investment opportunities in startups that qualify for tax credits, including the Angel Tax Credit.

"They tend to take a closer look at that company," Mercil said. "And when they invest in that company, they tend to invest more than they would have without (the tax credit). I think it's bringing more capital to early stage companies."

But demand for these tax credits has strained the program's resources. In past years, the program has run through its credits sometime in the spring -- earlier each year. DEED has already allocated more than half of its available \$12.2 million in credits for 2014.

The study found that this pattern had the unintended consequence of causing angels to withhold

investments until the pool had been replenished.

This created problems for qualifying businesses that were waiting on that cash.

J.T. Johnson, who co-founded Shakopee-based NoSweat, which produces sweat-absorbent inserts for hats and helmets, said all of his company's investors were able to take advantage of the Angel Tax Credit.

"I won't say that we wouldn't have gotten funding without it, but it helped seal the deal. Especially for investors that had concerns," Johnson said. "I mean, we were young -- just out of college. Banks wouldn't even talk to us."

Johnson said he hopes the Legislature renews the program. "It would be a real shame to see it go away."

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