

Angel Investor Tax Credit

Georgia House Bill 1069 was signed into law by Governor Perdue in June of 2010. Section Two of this bill is known as the "Angel Investor Tax Credit" and provides for a Georgia tax credit of up to \$50,000 annually for investors of early-stage, start-up companies in Georgia.

Access to early-stage growth in young companies is often difficult to obtain, and the purpose of this tax credit is to encourage direct investment from individuals into start-up companies in Georgia. The bill aims to expand the economy of Georgia by enlarging its base of wealth-creating businesses, thus increasing the number of quality and high-paying jobs. Additionally, it aims to attract qualified individuals to move to and work within Georgia, retain talented individuals educated in Georgia's university systems, and to support businesses seeking to commercialize technology invented and developed in Georgia's universities.

The Credit

The credit equals 35 percent of the amount invested in the start-up company and is available for investments made in 2011, 2012, and 2013. This credit can be used beginning with the second year following the year the investment is made.

The aggregate amount of credit allowed against taxable income for any number of qualified investments is \$50,000 at the individual level annually. If the taxpayer does not use the entire credit in any one year, it may be carried forward five years from the close of the year the investment was made. The annual maximum tax credit of \$50,000 can be obtained by investing \$142,857 into one or more eligible businesses per year. At this level, the credit will offset \$833,333 in Georgia taxable income.

Angel Credit Recap:	Investor Limit per Year	Georgia Total per Year	Georgia Total for 3 Years
Maximum investment	\$ 142,857	\$ 28,571,429	\$ 85,714,286
Maximum credit available	\$ 50,000	\$ 10,000,000	\$ 30,000,000
Income to offset with credit*	\$ 833,333	\$ 166,666,667	\$ 500,000,000

*Based on the 6% current income tax rate for individuals in Georgia

Qualifying Investors

Angel investors eligible for the credit must be accredited investors as defined by the SEC. This is limited to individuals who are obligated to pay Georgia income taxes or pass-through

investment entities and manage \$5 million or less in capital. Venture capital funds, hedge funds, and commodity funds with institutional investors do not qualify.

Investments in the companies that qualify for the credit must be paid for in cash by a qualified investor to a qualified business in exchange for stock, an equity interest, or Qualified Subordinated Debt (with a maturity of less than five years) and cannot have been raised as a result of another tax incentive program. Further, no commissions or other remuneration may be paid directly or indirectly for solicitation of the investment.

Qualifying Businesses

In order for a business to qualify as an eligible investment under the credit, the business must register with the tax commissioner using [Form IT-QBR](#) prior to receiving the investment capital. Upon approval, the business is considered eligible for investment for the credit for 12 months. To qualify, a business:

- Must be a corporation, LLC, or partnership located in Georgia;
- Must be organized no more than three years before the investment is made;
- Cannot be engaged substantially in retail sales, real estate and construction, professional services, gambling, natural resource extraction, investment activities and insurance, or activities where admission or membership is charged;
- Must have its headquarters located in GA from the time the investment is made through the entire duration that the investor benefits from the credit;
- Must employ 20 or fewer people at the time of registration;
- Cannot have gross revenues that exceed \$500,000 in any prior fiscal year;
- Cannot have obtained more than \$1 million in gross cash proceeds from issuing debt or equity instruments (does not include commercial loans); and
- Cannot have utilized the GA film tax credit.

Application and Approval

An original application must be filed by the qualified investor by June 30 of the year following the investment. Additionally, the qualified investor must submit an application between September 1 and October 31 of the year for which the credit is claimed. During this period, the credits will be approved for taxpayers up to the \$10 million annual limit. If the annual limit is reached, the credits will be allocated to all timely applicants on a pro-rata basis.

It is important to note that investors receiving the credit must follow certain provisions after the credits are obtained. Credits must be recaptured if the investor transfers any of the securities or subordinated debt received in the investment to another person or entity within two years of the transaction. Recapture is not triggered if the investor dies, transfers to a spouse incident to divorce, or if a merger, conversion, or sale of the business occurs where the investor does not receive cash or tangible property. Additionally, credits must be recaptured if the qualified

business redeems the investor's securities or pays principal on any subordinated debt within five years of the date the investment was made. Finally, the qualified investor or his/her immediate family may not participate in any operation of the business for compensation within two years of the date the investment was made. Compensation does not include stock or stock options.

Recap

The Angel Investor Tax Credit is a great move taken by the Georgia legislature to promote the development of start-up companies in the state. This measure, along with the other credits and incentives available to Georgia companies, confirm Georgia's enduring commitment to establish the state as the center of entrepreneurship in our region.

[Department of Revenue Regulations to the Angel Investor Tax Credit](#)

[Registration Form IT-QBR for Qualifying Investments](#)

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