



SOUTH
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ANGEL
NETWORK



VENTURE
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South Carolina Angel Tax Credit: What Investors and Entrepreneurs Need to Know

Summer 2015

Disclaimer

- This presentation covers complex tax, accounting, and legal issues
- We are not attorneys or accountants, nor qualified to give legal or tax advice
- Please seek input of professional advisors for your situation

Agenda

- I. What is the angel investor tax credit?
- II. Who and what qualifies?
- III. What are the nitty gritty details?
- IV. What issues have there been?
- V. Is the credit working?
- VI. Questions?

I. What is the angel investor tax credit?

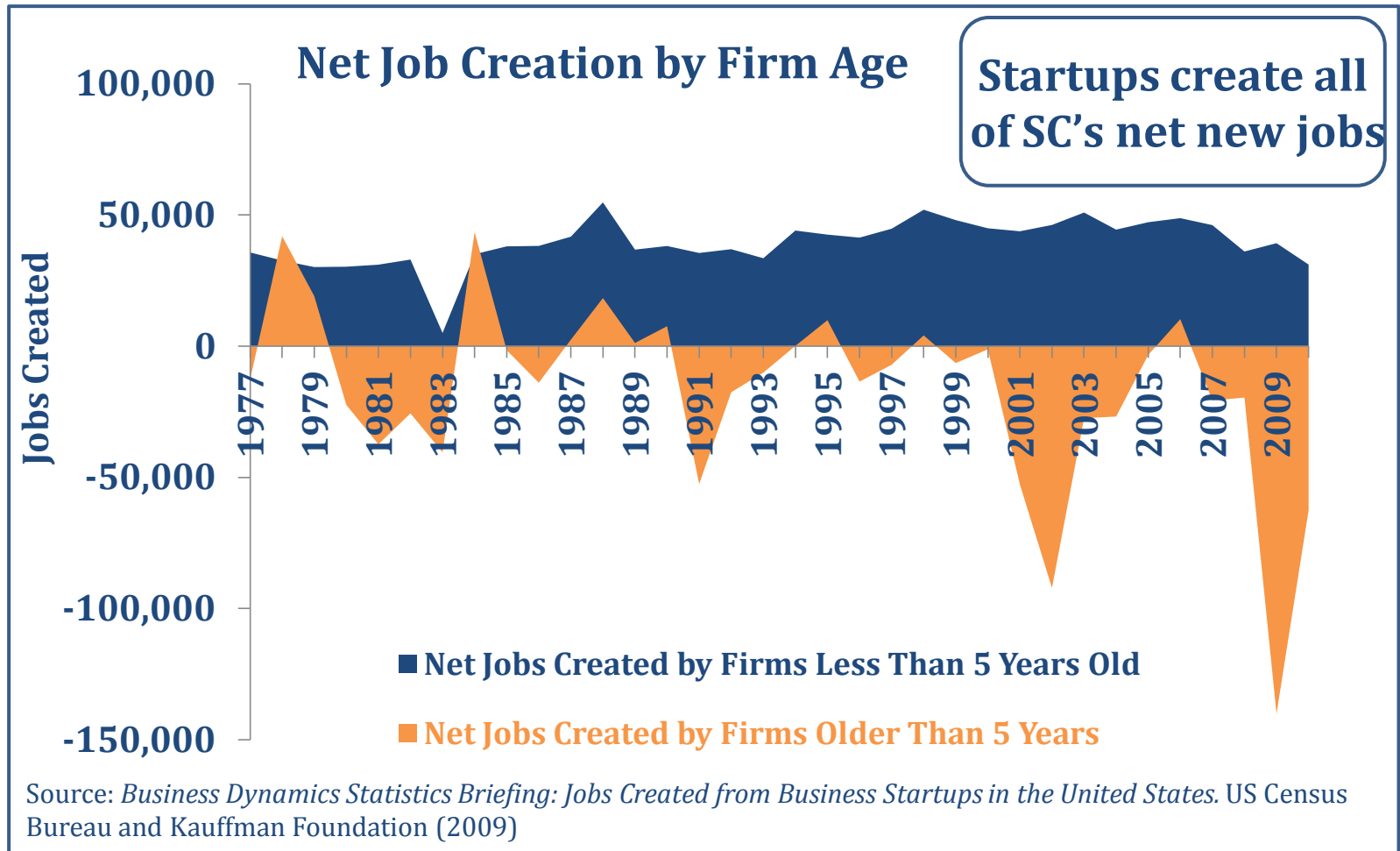
- High Growth Small Business Job Creation Act of 2013
 - Passed by Legislature, signed by Governor in June 2013
 - Took 4+ years to gain approval (and sunsets in 2019)



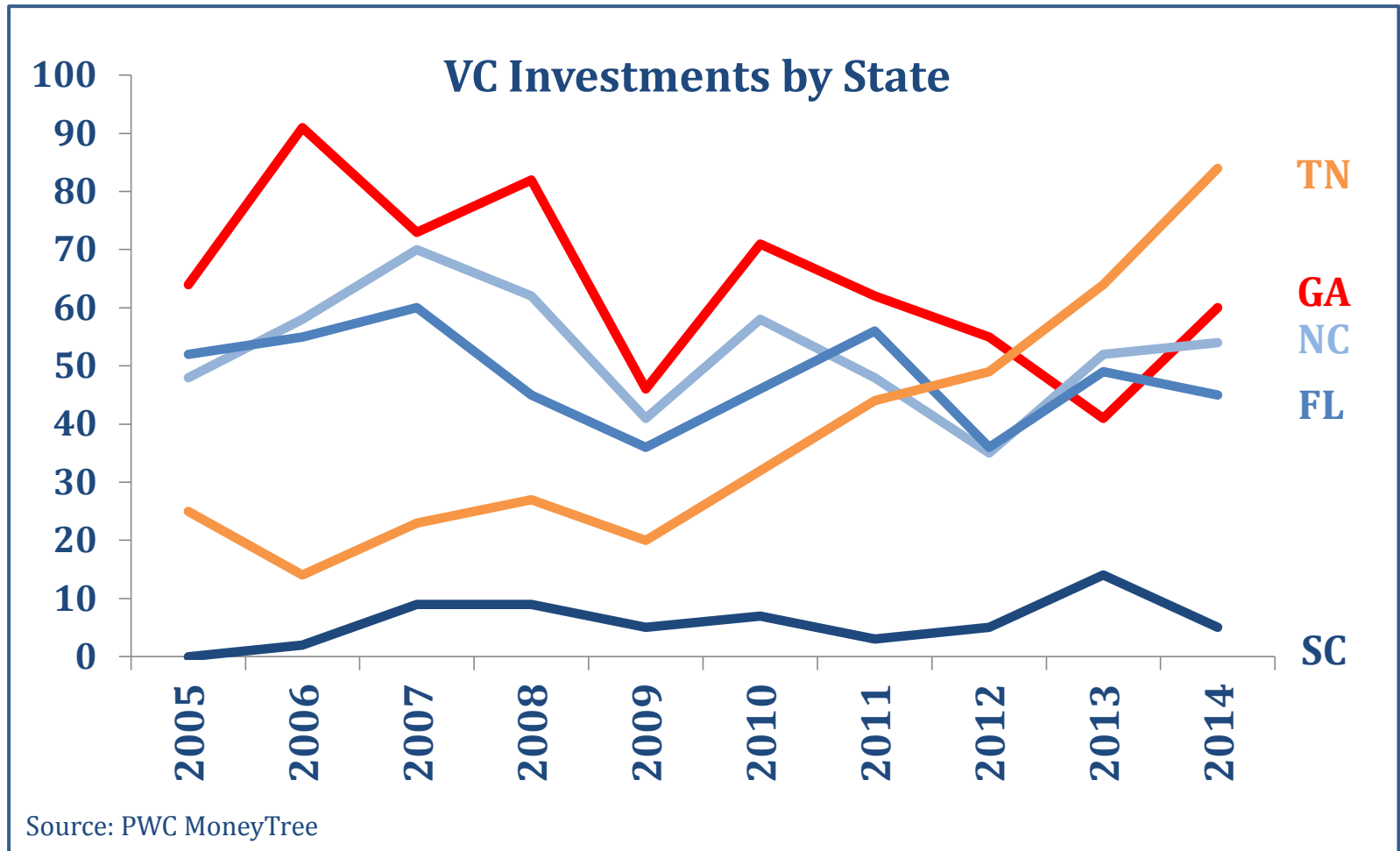
I. What is the angel investor tax credit?

- The General Assembly desires to support the economic development goals of this State by improving the availability of early stage capital for emerging high-growth enterprises in South Carolina. To further these goals, this chapter is intended to:
 - encourage individual angels to invest in high-growth, job-creating businesses
 - increase high-quality, high-paying jobs in SC
 - expand the economy with wealth-creating businesses
 - help commercialize SC's higher education inventions

SC's economy needs startups...



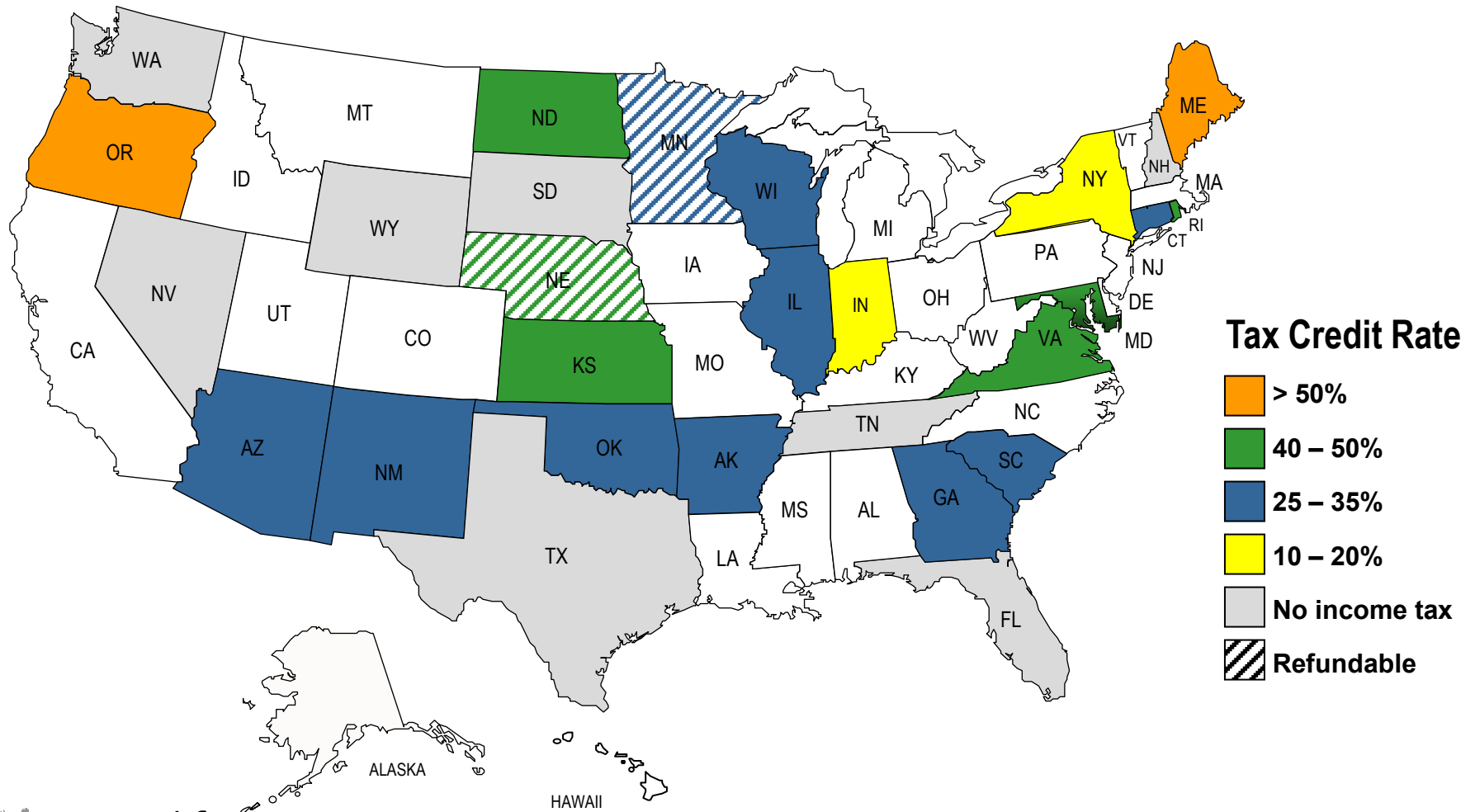
...but is lacking in early stage capital



Angel investor tax credit overview

- State income tax credit
 - No impact on federal taxes
 - Is a credit against tax liability (not an income deduction)
 - Up to 35% of the investment made in a qualified startup
 - Capped at \$100,000 in credits per individual per year
 - Implies max qualified investments of \$285,714
 - Not refundable, but can be carried forward up to 10 years
 - \$5 million in total credits available each year
 - Sunsets in 2019
- Around 20+ other states have similar tax credits

29 states have a credit (or no income tax)



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II. Who and what qualifies: Companies

Required

Less than 5 years old

Headquartered in SC

Less than 25 employees

Revenues less than
\$2M / year

High growth industry

Not Allowed

Stated purpose or > 25%
revenue from:

retail, real estate,
construction

gambling, entertainment,
recreation

investing, insurance,
natural resources

no brokerage fees

II. Who and what qualifies: Investors

Allowed

Accredited* individual investors, pass-throughs

Investing in debt or equity

SC resident or SC tax liability

Not Allowed

Operating businesses

Funds > \$5 million

*Accredited Investor Definition (per SEC):

- > \$1M in net worth (excluding 1st home), or
- > \$200K income last 2 years and this year for individuals, or
- > \$300K income last 2 years and this year for couples, or
- Pass-through entity whose members are all accredited

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III. Nitty Gritty Details

- Process / Timing
- Transferability
- Recapture

Nitty Gritty - Process

Qualifying company files application with Secretary of State



Typically approved in 7-10 days

Once company certified, accredited investor makes investment



Investor applies for tax credit by December 31st of investment year



Department of Revenue allocates credits by January 31st



If oversubscribed, allocated pro-rata

Investor files credit form with tax return (for 50% of allowed credit)



Investor files credit form in following year(s) for remaining credit

Nitty Gritty - Transferability

- The credits are transferable!
 - They can be sold or exchanged...but only once!
 - Expected to be worth ~\$0.80 per \$1.00
 - Can transfer to spouse in divorce or heirs after death
- Designed to allow/attract:
 - Out of state investors
 - Investors with wealth but little current income
- Glitch:
 - Only out of state pass through entities currently allowed
 - Non-resident individuals without SC tax liability excluded
 - Hope to address next legislative session

Nitty Gritty - Recapture

- As a condition for passing the bill, recapture clause was added
 - Intended to recover credit for gains...
 - And avoid double dipping if a loss
 - Complicated and confusing, but here's the gist:
- If investor realizes capital gain from credit:
 - Charged full 7% capital gains rate until credit recovered
 - Then capital gains drops to normally discounted 3.92%
- If investor realizes capital loss:
 - May not claim deduction for credited portion of capital

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IV. What issues have arisen

- Process failures
 - Investors investing before company certified
 - Investors failing to file credit application by 12/31
 - One time extension for 2014 through July 31, 2015
- Pass-through disallowance
 - Originally disallowed multiple-member pass throughs
 - Issue now resolved
- Out of state investors
 - Current language disallows out of state individuals with no SC tax liability – which defeats purpose of attracting capital

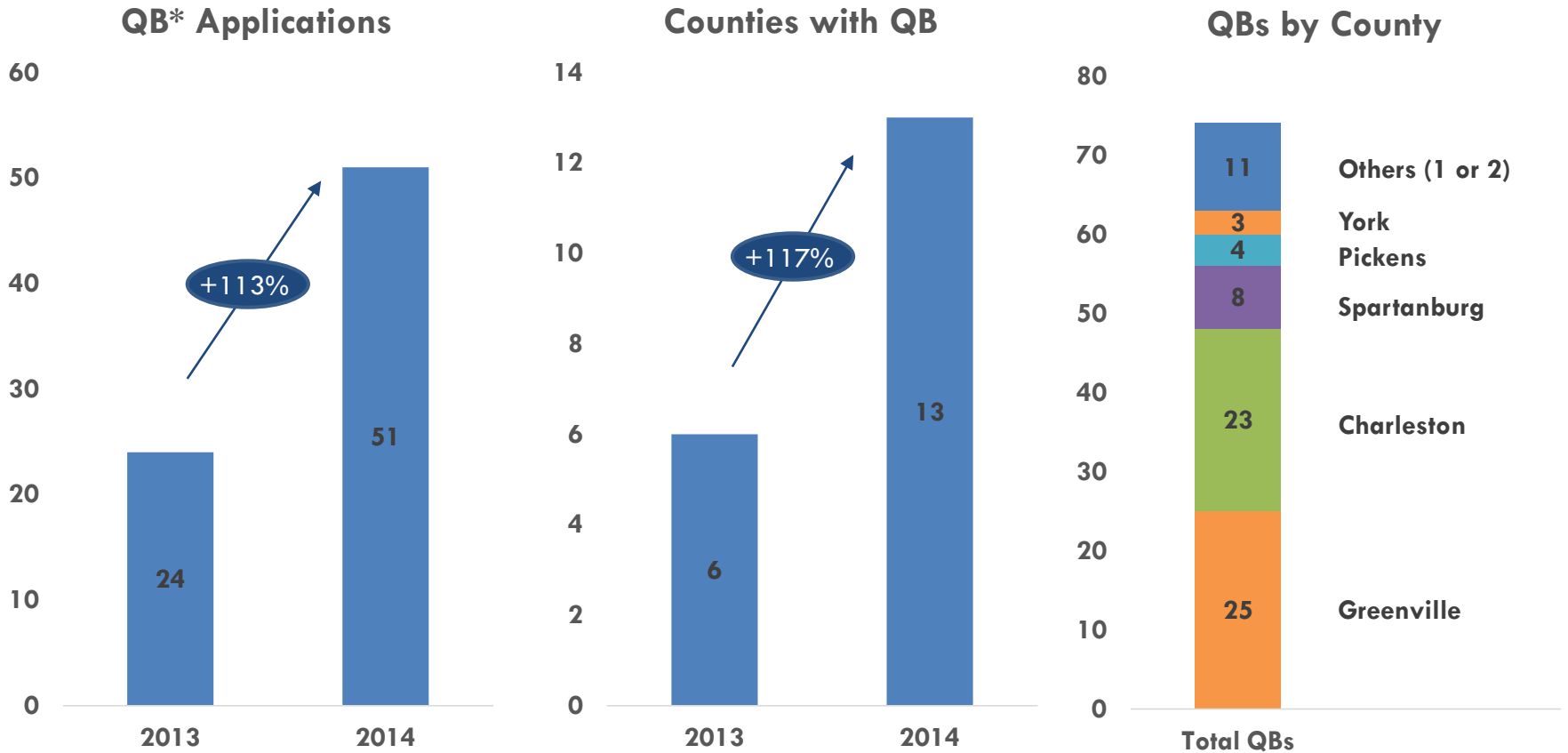
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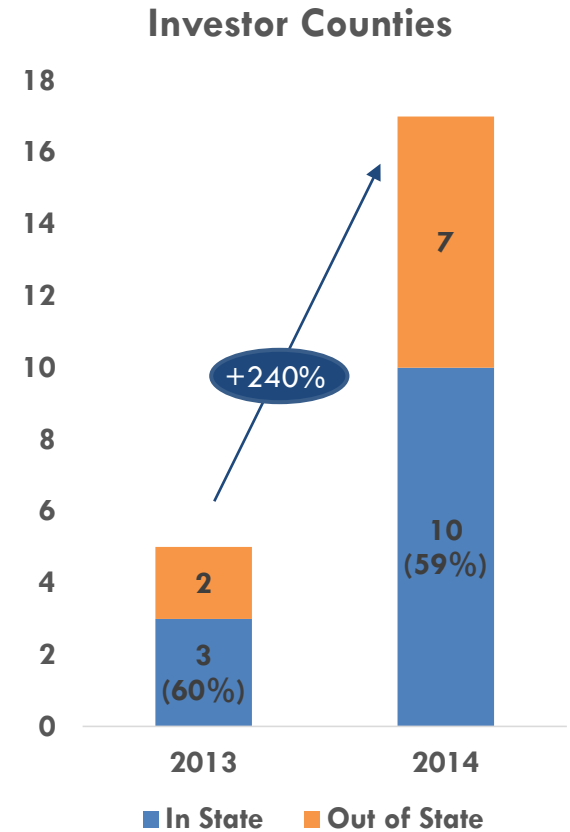
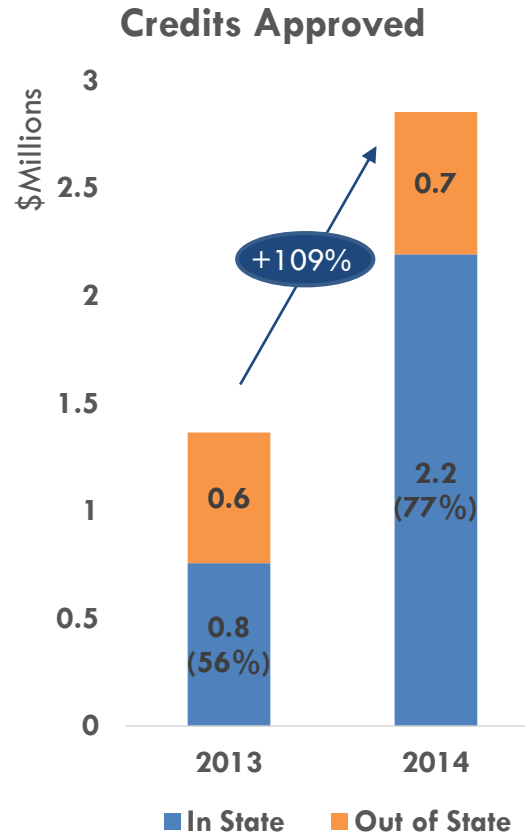
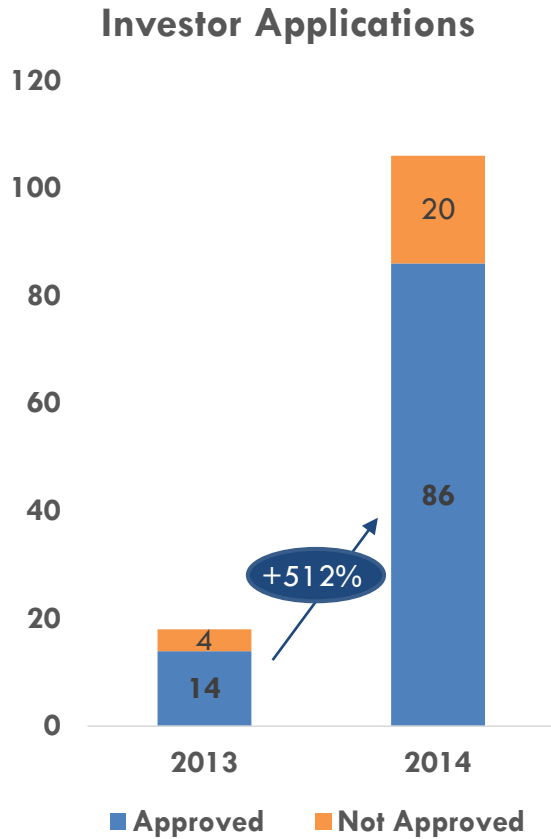
- Reporting requirements:
 - Secretary of State
 - Qualified Businesses to Legislature/Governor by 1/31
 - Department of Revenue
 - Allocation of credits to investors by January 31
 - Qualified investments to Legislature/Governor by 3/31

V. Is the credit working?



*QB = Qualified Business

V. Is the credit working?



Qualified Investments

\$3.9M

\$8.1M

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VI. What questions do you have?

- Is it \$5M of new credits each year? Or does carry-over years credit count against this year's total? *\$5M begins afresh each year*
- If you don't need 50% in year 1, can you take more forward? *Yes*
- Can a founder claim the credit even if they are not accredited by wealth/income? *Yes. Founders are automatically accredited*
- Have any non-SC residents claimed the credit successfully? *Yes – see slides 23-24*
- Does information on how much investment each company receives become public? *No*
- What happens if a qualified company merges or is acquired? *The acquiring entity must inform the Secretary of State and Department of Revenue, and may be able to remain qualified.*
- Where can I get more information? *Our website has the links to the filing documents, or feel free to contact us any time*

Thank you!



www.scangelnetwork.com

