

Sixty-fifth
Legislative Assembly
of North Dakota

ENGROSSED HOUSE BILL NO. 1045

Introduced by

Legislative Management

(Political Subdivision Taxation Committee)

1 A BILL for an Act to amend and reenact section 57-38-01.26, subsection 7 of section
 2 57-38-30.3, subsection 5 of section 57-38.5-01, and sections 57-38.5-02, 57-38.5-03,
 3 57-38.5-04, 57-38.5-05, and 57-38.5-06 of the North Dakota Century Code, relating to the angel
 4 fund investment tax credit and the seed capital investment tax credit; to repeal section
 5 57-38-01.26 and chapter 57-38.5 of the North Dakota Century Code, relating to the angel fund
 6 investment tax credit and the seed capital investment tax credit; to provide an effective date; to
 7 provide an expiration date; and to declare an emergency.

8 **BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

9 **SECTION 1. AMENDMENT.** Section 57-38-01.26 of the North Dakota Century Code is
 10 amended and reenacted as follows:

11 **57-38-01.26. Angel fund investment tax credit.**

- 12 1. A taxpayer is entitled to a credit against state income tax liability under section
 13 57-38-30 or 57-38-30.3 for an investment made prior to April 1, 2017, in an angel fund
 14 that is a domestic organization created under the laws of this state. The amount of the
 15 credit to which a taxpayer is entitled is forty-five percent of the amount remitted by the
 16 taxpayer to an angel fund during the taxable year. The aggregate annual credit for
 17 which a taxpayer may obtain a tax credit is not more than forty-five thousand dollars.
 18 The aggregate lifetime credits under this section that may be obtained by an
 19 individual, married couple, passthrough entity and its affiliates, or other taxpayer is five
 20 hundred thousand dollars. The investment used to calculate the credit under this
 21 section may not be used to calculate any other income tax deduction or credit allowed
 22 by law.
- 23 2. To be eligible for the credit, the investment must be at risk in the angel fund for at least
 24 three years. An investment made in a qualified business from the assets of a

1 retirement plan is deemed to be the retirement plan participant's investment for the
2 purpose of this section if a separate account is maintained for the plan participant and
3 the participant directly controls where the account assets are invested. Investments
4 placed in escrow do not qualify for the credit. The credit must be claimed in the taxable
5 year in which the investment in the angel fund was received by the angel fund. The
6 credit allowed may not exceed the liability for tax under this chapter. If the amount of
7 credit determined under this section exceeds the liability for tax under this chapter, the
8 excess may be carried forward to each of the seven succeeding taxable years. A
9 taxpayer claiming a credit under this section may not claim any credit available to the
10 taxpayer as a result of an investment made by the angel fund in a qualified business
11 under chapter 57-38.5 or 57-38.6.

12 3. An angel fund must:

- 13 a. Be a partnership, limited partnership, corporation, limited liability company, limited
14 liability partnership, limited liability limited partnership, trust, or estate organized
15 on a for-profit basis which is headquartered in this state.
- 16 b. Be organized for the purpose of investing in a portfolio of at least three primary
17 sector companies that are early-stage and mid-stage private, nonpublicly traded
18 enterprises with strong growth potential. For purposes of this section, an
19 early-stage entity means an entity with annual revenues of up to two million
20 dollars and a mid-stage entity means an entity with annual revenues over two
21 million dollars not to exceed ten million dollars. Investments in real estate or real
22 estate holding companies are not eligible investments by certified angel funds.
23 Any angel fund certified before January 1, 2013, which has invested in real estate
24 or a real estate holding company is not eligible for recertification.
- 25 c. Consist of at least six accredited investors as defined by securities and exchange
26 commission regulation D, rule 501.
- 27 d. Not have more than twenty-five percent of its capitalized investment assets
28 owned by an individual investor.
- 29 e. Have at least five hundred thousand dollars in commitments from accredited
30 investors and that capital must be subject to call to be invested over an
31 unspecified number of years to build a portfolio of investments in enterprises.

- 1 f. Be member-managed or a manager-managed limited liability company and the
2 investor members or a designated board that includes investor members must
3 make decisions as a group on which enterprises are worthy of investments.
- 4 g. Be certified as an angel fund that meets the requirements of this section by the
5 department of commerce.
- 6 h. Be in compliance with the securities laws of this state.
- 7 i. Within thirty days after the date on which an investment in an angel fund is made,
8 the angel fund shall file with the tax commissioner and provide to the investor
9 completed forms prescribed by the tax commissioner which show as to each
10 investment in the angel fund the following:
- 11 (1) The name, address, and social security number or federal employer
12 identification number of the taxpayer or passthrough entity that made the
13 investment;
- 14 (2) The dollar amount remitted by the taxpayer or passthrough entity; and
- 15 (3) The date the payment was received by the angel fund for the investment.
- 16 j. Within thirty days after the end of a calendar year, the angel fund shall file with
17 the tax commissioner a report showing the name and principal place of business
18 of each enterprise in which the angel fund has an investment and the amount of
19 the investment.
- 20 4. The tax commissioner may disclose to the legislative management the reported
21 information described under paragraphs 2 and 3 of subdivision i of subsection 3 and
22 the reported information described under subdivision j of subsection 3.
- 23 5. Angel fund investors may be actively involved in the enterprises in which the angel
24 fund invests but the angel fund may not invest in any enterprise if any one angel fund
25 investor owns directly or indirectly more than forty-nine percent of the ownership
26 interests in the enterprise. The angel fund may not invest in an enterprise if any one
27 partner, shareholder, or member of a passthrough entity that directly or indirectly owns
28 more than forty-nine percent of the ownership interests in the enterprise.
- 29 6. Investors in one angel fund may not receive more than five million dollars in aggregate
30 credits under this section during the life of the angel fund but this provision may not be
31 interpreted to limit additional investments in that angel fund.

- 1 7. a. A passthrough entity entitled to the credit under this section must be considered
2 to be the taxpayer for purposes of this section, and the amount of the credit
3 allowed must be determined at the passthrough entity level.
- 4 b. ~~For the first two taxable years beginning after December 31, 2010, if a~~
5 ~~passthrough entity does not elect to sell, transfer, or assign the credit as provided~~
6 ~~under this subsection and subsection 8, the amount of the total credit determined~~
7 ~~at the entity level must be passed through to the partners, shareholders, or~~
8 ~~members in proportion to their respective interests in the passthrough entity.~~
- 9 c. ~~For the first two taxable years beginning after December 31, 2010, if a~~
10 ~~passthrough entity elects to sell, transfer, or assign a credit as provided under~~
11 ~~this subsection and subsection 8, the passthrough entity shall make an~~
12 ~~irrevocable election to sell, transfer, or assign the credit on the return filed by the~~
13 ~~entity for the taxable year in which the credit was earned. A passthrough entity~~
14 ~~that makes a valid election to sell, transfer, or assign a credit shall sell one-~~
15 ~~hundred percent of the credit earned, may sell the credit to only one purchaser,~~
16 ~~and shall comply with the requirements of this subsection and subsection 8.~~
- 17 8. ~~For the first two taxable years beginning after December 31, 2010, a taxpayer may~~
18 ~~elect to sell, transfer, or assign all of the earned or excess tax credit earned under this~~
19 ~~section for investment in an angel fund established after July 31, 2011, subject to the~~
20 ~~following:~~
- 21 a. ~~A taxpayer's total credit sale, transfer, or assignment under this section may not~~
22 ~~exceed one hundred thousand dollars over any combination of taxable years.~~
23 ~~The cumulative credits transferred by all investors in an angel fund may not~~
24 ~~exceed fifty percent of the aggregate credits under this section during the life of~~
25 ~~the angel fund under subsection 6.~~
- 26 b. ~~If the taxpayer elects to sell, assign, or transfer a credit under this subsection, the~~
27 ~~tax credit transferor and the tax credit purchaser jointly shall file with the tax~~
28 ~~commissioner a copy of the purchase agreement and a statement containing the~~
29 ~~names, addresses, and taxpayer identification numbers of the parties to the~~
30 ~~transfer, the amount of the credit being transferred, the gross proceeds received~~
31 ~~by the transferor, and the taxable year or years for which the credit may be~~

1 ~~claimed. The taxpayer and the purchaser also shall file a document allowing the~~
2 ~~tax commissioner to disclose tax information to either party for the purpose of~~
3 ~~verifying the correctness of the transferred tax credit. The purchase agreement,~~
4 ~~supporting statement, and waiver must be filed within thirty days after the date~~
5 ~~the purchase agreement is fully executed.~~

6 e. ~~The purchaser of the tax credit shall claim the credit beginning with the taxable~~
7 ~~year in which the credit purchase agreement was fully executed by the parties. A~~
8 ~~purchaser of a tax credit under this section has only such rights to claim and use~~
9 ~~the credit under the terms that would have applied to the tax credit transferor.~~

10 ~~This subsection does not limit the ability of the tax credit purchaser to reduce the~~
11 ~~tax liability of the purchaser, regardless of the actual tax liability of the tax credit~~
12 ~~transferor.~~

13 d. ~~A sale, assignment, or transfer of a tax credit under this section is irrevocable and~~
14 ~~the purchaser of the tax credit may not sell, assign, or otherwise transfer the~~
15 ~~credit.~~

16 e. ~~If the amount of the credit available under this section is changed as a result of~~
17 ~~an amended return filed by the transferor, or as the result of an audit conducted~~
18 ~~by the internal revenue service or the tax commissioner, the transferor shall~~
19 ~~report to the purchaser the adjusted credit amount within thirty days of the~~
20 ~~amended return or within thirty days of the final determination made by the~~
21 ~~internal revenue service or the tax commissioner. The tax credit purchaser shall~~
22 ~~file amended returns reporting the additional tax due or claiming a refund as~~
23 ~~provided in section 57-38-38 or 57-38-40, and the tax commissioner may audit~~
24 ~~these returns and assess or issue refunds, even though other time periods~~
25 ~~prescribed in these sections may have expired for the purchaser.~~

26 f. ~~Gross proceeds received by the tax credit transferor must be assigned to North~~
27 ~~Dakota. The amount assigned under this subsection cannot be reduced by the~~
28 ~~taxpayer's income apportioned to North Dakota or any North Dakota net~~
29 ~~operating loss of the taxpayer.~~

30 g. ~~The tax commissioner has four years after the date of the credit assignment to~~
31 ~~audit the returns of the credit transferor and the purchaser to verify the~~

1 correctness of the amount of the transferred credit and if necessary assess the
2 credit purchaser if additional tax is found due. This subdivision does not limit or
3 restrict any other time period prescribed in this chapter for the assessment of tax.

4 ~~h.a. An angel fund certified before April 1, 2017, shall pay a one-time surcharge of~~
5 ~~forty-five percent on the angel fund's net uninvested capital. For purposes of this~~
6 ~~subdivision, "net uninvested capital" means fifty percent of the angel fund's~~
7 ~~uninvested capital on April 1, 2017. Uninvested capital is calculated by~~
8 ~~subtracting the cumulative dollars invested by the angel fund as reported under~~
9 ~~subdivision b from the cumulative dollars invested by its investors in the fund~~
10 ~~from January 1, 2013, through March 31, 2017, as reported under subdivision i of~~
11 ~~subsection 3.~~

12 ~~b. For each enterprise identified in the report required under subdivision j of~~
13 ~~subsection 3, the angel fund shall file a report with the tax commissioner showing~~
14 ~~the total dollars invested by the angel fund from January 1, 2013, through~~
15 ~~March 31, 2017. An angel fund may not amend the report filed under this section.~~
16 ~~The report must be filed on or before July 1, 2017.~~

17 ~~c. The net uninvested capital surcharge must be paid on or before December 31,~~
18 ~~2017.~~

19 ~~d. The provisions of this chapter relating to administration, collection, and~~
20 ~~enforcement apply to the net uninvested capital surcharge.~~

21 ~~9.~~ The tax commissioner may adopt rules to establish necessary administrative
22 provisions for the credit under this section, including provisions to permit verification of
23 the validity and timeliness of the transferred tax credit.

24 **SECTION 2. AMENDMENT.** Subsection 7 of section 57-38-30.3 of the North Dakota
25 Century Code is amended and reenacted as follows:

- 26 7. A taxpayer filing a return under this section is entitled to the following tax credits:
- 27 a. Family care tax credit under section 57-38-01.20.
 - 28 b. Renaissance zone tax credits under sections 40-63-04, 40-63-06, and 40-63-07.
 - 29 c. Agricultural business investment tax credit under section 57-38.6-03.
 - 30 d. SeedAngel investor seed capital investment tax credit under section 57-38.5-03
31 (effective for the first three taxable years beginning after December 31, 2016).

- 1 e. Planned gift tax credit under section 57-38-01.21.
- 2 f. Biodiesel fuel or green diesel fuel tax credits under sections 57-38-01.22 and
- 3 57-38-01.23.
- 4 g. Internship employment tax credit under section 57-38-01.24.
- 5 h. Workforce recruitment credit under section 57-38-01.25.
- 6 i. Angel fund investment tax credit under section 57-38-01.26 (effective for the first
- 7 three taxable years beginning after December 31, 2016).
- 8 j. Microbusiness tax credit under section 57-38-01.27.
- 9 k. Marriage penalty credit under section 57-38-01.28.
- 10 ~~l. Homestead income tax credit under section 57-38-01.29.~~
- 11 ~~m. Commercial property income tax credit under section 57-38-01.30.~~
- 12 ~~n. Research and experimental expenditures under section 57-38-30.5.~~
- 13 ~~o.m. Geothermal energy device installation credit under section 57-38-01.8.~~
- 14 ~~p.n. Long-term care partnership plan premiums income tax credit under section~~
- 15 ~~57-38-29.3.~~
- 16 ~~q.o. Employer tax credit for salary and related retirement plan contributions of~~
- 17 ~~mobilized employees under section 57-38-01.31.~~
- 18 ~~r.p. Automating manufacturing processes tax credit under section 57-38-01.33~~
- 19 ~~(effective for the first five taxable years beginning after December 31, 2012).~~
- 20 ~~s.q. Income tax credit for passthrough entity contributions to private education~~
- 21 ~~institutions under section 57-38-01.7.~~

22 **SECTION 3. AMENDMENT.** Subsection 5 of section 57-38.5-01 of the North Dakota
23 Century Code is amended and reenacted as follows:

- 24 5. "Qualified business" means a business other than a real estate investment trust which
- 25 is a primary sector business that:
 - 26 a. Is incorporated or its satellite operation is incorporated as a for-profit corporation,
 - 27 passthrough entity, or joint venture;
 - 28 b. Is in compliance with the requirements for filings with the securities commissioner
 - 29 under the securities laws of this state;
 - 30 c. Has North Dakota residents as a majority of its employees in the North Dakota
 - 31 principal office or the North Dakota satellite operation;

- 1 d. Has its principal office in this state and has the majority of its business activity
2 performed in this state, except sales activity, or has a significant operation in
3 North Dakota that has ~~or at least two employees and~~ is projected to have more
4 than ten employees ~~or one hundred fifty thousand dollars of sales annually~~; and
5 e. Relies on innovation, research, or the development of new products and
6 processes in its plans for growth and profitability.

7 **SECTION 4. AMENDMENT.** Section 57-38.5-02 of the North Dakota Century Code is
8 amended and reenacted as follows:

9 **57-38.5-02. Certification - Investment reporting by qualified businesses - Maximum**
10 **investments in qualified businesses.**

- 11 1. The director shall certify whether a business that has requested to become a qualified
12 business meets the requirements of subsection 5 of section 57-38.5-01. The director
13 shall establish the necessary forms and procedures for certifying qualified businesses.
14 2. A qualified business may apply to the director for a recertification. Only one
15 recertification is available to a qualified business. The application for recertification
16 must be filed with the director within ninety days before the original certification expiry
17 date. The recertification issued by the director must comply with the provisions of
18 subsection 3.
19 3. A certification letter must be issued by the director to the qualified business. The
20 certification letter must include:
21 a. The certification effective date.
22 b. The certification expiry date. The expiry date may not be more than four years
23 from the certification effective date.
24 4. The maximum aggregate amount of qualified investments a qualified business may
25 receive for all tax years is limited to five hundred thousand dollars under this chapter.
26 The tax credit allowed on qualified investments in a qualified business must be
27 allowed to taxpayers in the chronological order of the taxpayer's qualified investments
28 as determined from the forms filed under section 57-38.5-07. The limitation on
29 investments under this subsection may not be interpreted to limit additional investment
30 by a taxpayer for which that taxpayer is not applying for a credit.

1 5. By February first in each of the five years following a year in which a qualified
2 business receives a qualified investment, the qualified business shall file with the tax
3 commissioner completed forms prescribed by the tax commissioner which show the
4 qualified business meets the requirements under section 57-38.5-01.

5 **SECTION 5. AMENDMENT.** Section 57-38.5-03 of the North Dakota Century Code is
6 amended and reenacted as follows:

7 **57-38.5-03. SeedAngel investor seed capital investment tax credit.**

8 If a taxpayer makes a qualified investment in a qualified business, the taxpayer is entitled to
9 a credit against state income tax liability under section 57-38-30 or 57-38-30.3.

- 10 1. The amount of the credit to which a taxpayer is entitled is ~~forty five~~twenty-five percent
11 of the amount invested by the taxpayer in qualified businesses during the taxable year.
- 12 2. The maximum annual credit a taxpayer may claim under this section is not more than
13 one hundred twelve thousand five hundred dollars. This subsection may not be
14 interpreted to limit additional investment by a taxpayer for which that taxpayer is not
15 applying for a credit.
- 16 3. Any amount of credit under subsection 1 not allowed because of the limitation in
17 subsection 2 may be carried forward for up to ~~four~~five taxable years after the taxable
18 year in which the investment was made.
- 19 4. A passthrough entity that invests in a qualified business must be considered to be the
20 taxpayer for purposes of the investment limitations in this section and the amount of
21 the credit allowed with respect to a passthrough entity's investment in a qualified
22 business must be determined at the passthrough entity level. The amount of the total
23 credit determined at the passthrough entity level must be allowed to the partners,
24 shareholders, or members in proportion to their respective interests in the passthrough
25 entity.
- 26 5. An investment made in a qualified business from the assets of a retirement plan is
27 deemed to be the retirement plan participant's investment for the purpose of this
28 chapter if a separate account is maintained for the plan participant and the participant
29 directly controls where the account assets are invested.
- 30 6. The investment must be made on or after the certification effective date and must be
31 at risk in the business to be eligible for the tax credit under this section. An investment

- 1 for which a credit is received under this section must remain in the business for at
2 least three years. Investments placed in escrow do not qualify for the credit.
- 3 7. The entire amount of an investment for which a credit is claimed under this section
4 must be expended by the qualified business for plant, equipment, research and
5 development, marketing and sales activity, or working capital for the qualified
6 business.
- 7 8. A taxpayer who owns a controlling interest in the qualified business or who receives
8 more than fifty percent of the taxpayer's gross annual income from the qualified
9 business is not entitled to a credit under this section. A member of the immediate
10 family of a taxpayer disqualified by this subsection is not entitled to the credit under
11 this section. For purposes of this subsection, "immediate family" means the taxpayer's
12 spouse, parent, sibling, or child or the spouse of any such person.
- 13 9. The tax commissioner may disallow any credit otherwise allowed under this section if
14 any representation by a business in the application for certification as a qualified
15 business proves to be false or if the taxpayer or qualified business fails to satisfy any
16 conditions under this section or any conditions consistent with this section otherwise
17 determined by the tax commissioner. The commissioner has four years after the due
18 date of the return or after the return was filed, whichever period expires later, to audit
19 the credit and assess additional tax that may be found due to failure to comply with the
20 provisions of this chapter. The amount of any credit disallowed by the tax
21 commissioner that reduced the taxpayer's income tax liability for any or all applicable
22 tax years, plus penalty and interest as provided under section 57-38-45, must be paid
23 by the taxpayer.
- 24 10. An angel fund that invests in a qualified business must be considered to be the
25 taxpayer for purposes of the investment limitations in this section. The amount of the
26 credit allowed with respect to an angel fund's investment in a qualified business must
27 be determined at the angel fund level. The amount of the total credit determined at the
28 angel fund level must be allowed to the investors in the angel fund in proportion to the
29 investor's respective interests in the fund. An angel fund that is subject to the tax
30 imposed under chapter 57-38 or which was certified under section 57-38-01.26 before

1 April 1, 2017, ~~unless the angel fund pays the surcharge under subsection 8 of section~~
2 ~~57-38-01.26~~, is not eligible for the investment tax credit under this chapter.

3 **SECTION 6. AMENDMENT.** Section 57-38.5-04 of the North Dakota Century Code is
4 amended and reenacted as follows:

5 **57-38.5-04. Taxable year for angel investor seed capital investment tax credit.**

6 The tax credit under section 57-38.5-03 must be credited against the taxpayer's income tax
7 liability for the taxable year in which the investment in the qualified business was received by
8 the qualified business.

9 **SECTION 7. AMENDMENT.** Section 57-38.5-05 of the North Dakota Century Code is
10 amended and reenacted as follows:

11 **57-38.5-05. SeedAngel investor seed capital investment tax credit limits.**

12 The aggregate amount of angel investor seed capital investment tax credit allowed for
13 investments under this chapter is limited to ~~threeten~~ million ~~five hundred thousand~~ dollars for
14 each calendar year. If investments in qualified businesses reported to the commissioner under
15 section 57-38.5-07 exceed the limits on tax credits for investments imposed by this section, the
16 credit must be allowed to taxpayers in the chronological order of their investments in qualified
17 businesses as determined from the forms filed under section 57-38.5-07.

18 **SECTION 8. AMENDMENT.** Section 57-38.5-06 of the North Dakota Century Code is
19 amended and reenacted as follows:

20 **57-38.5-06. SeedAngel investor seed capital investment tax credit - Procedure -**
21 **Rules.**

22 To receive the tax credit provided by section 57-38.5-03, a taxpayer must claim the credit on
23 the taxpayer's annual state income tax return in the manner prescribed by the tax commissioner
24 and file with the return a copy of the form issued by the qualified business as to the taxpayer's
25 investment in the qualified business under section 57-38.5-07.

26 **SECTION 9. REPEAL.** Section 57-38-01.26 and chapter 57-38.5 of the North Dakota
27 Century Code are repealed.

28 **SECTION 10. EFFECTIVE DATE.** Section 9 of this Act is effective for taxable years
29 beginning after December 31, 2019, and sections 2 through 8 of this Act are effective for taxable
30 years beginning after December 31, 2016.

1 **SECTION 11. EMERGENCY.** Section 1 of this Act is declared to be an emergency
2 measure.