

**THIRD ENGROSSMENT
with Conference Committee Amendments
REENGROSSED 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 and subsection 7 of section
2 57-38-30.3 of the North Dakota Century Code, relating to the angel fund investment tax credit;
3 to provide a penalty; to provide an effective date; and to provide an expiration date.

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

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

7 **57-38-01.26. (Effective for investments made before July 1, 2017) Angel fund**
8 **investment tax credit.**

- 9 1. A taxpayer is entitled to a credit against state income tax liability under section
10 57-38-30 or 57-38-30.3 for an investment made prior to July 1, 2017, in an angel fund
11 that is a domestic organization created~~organized~~ before July 1, 2017, under the laws
12 of this state. The amount of the credit to which a taxpayer is entitled is forty-five
13 percent of the amount remitted by the taxpayer to an angel fund during the taxable
14 year. The aggregate annual credit for which a taxpayer may obtain a tax credit is not
15 more than forty-five thousand dollars. The aggregate lifetime credits under this section
16 that may be obtained by an individual, married couple, passthrough entity and its
17 affiliates, or other taxpayer is five hundred thousand dollars. The investment used to
18 calculate the credit under this section may not be used to calculate any other income
19 tax deduction or credit allowed by law.
- 20 2. To be eligible for the credit, the investment must be at risk in the angel fund for at least
21 three years. An investment made in a qualified business from the assets of a
22 retirement plan is deemed to be the retirement plan participant's investment for the
23 purpose of this section if a separate account is maintained for the plan participant and
24 the participant directly controls where the account assets are invested. Investments

1 placed in escrow do not qualify for the credit. The credit must be claimed in the taxable
2 year in which the investment in the angel fund was received by the angel fund. The
3 credit allowed may not exceed the liability for tax under this chapter. If the amount of
4 credit determined under this section exceeds the liability for tax under this chapter, the
5 excess may be carried forward to each of the seven succeeding taxable years. A
6 taxpayer claiming a credit under this section may not claim any credit available to the
7 taxpayer as a result of an investment made by the angel fund in a qualified business
8 under chapter 57-38.5 or 57-38.6.

9 3. An angel fund must:

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

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

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

1 supporting statement, and waiver must be filed within thirty days after the date
2 the purchase agreement is fully executed.

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

7 This subsection does not limit the ability of the tax credit purchaser to reduce the
8 tax liability of the purchaser, regardless of the actual tax liability of the tax credit
9 transferor.

10 d. A sale, assignment, or transfer of a tax credit under this section is irrevocable and
11 the purchaser of the tax credit may not sell, assign, or otherwise transfer the
12 credit.

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

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

27 g. The tax commissioner has four years after the date of the credit assignment to
28 audit the returns of the credit transferor and the purchaser to verify the
29 correctness of the amount of the transferred credit and if necessary assess the
30 credit purchaser if additional tax is found due. This subdivision does not limit or
31 restrict any other time period prescribed in this chapter for the assessment of tax.

- 1 h. The tax commissioner may adopt rules to establish necessary administrative
2 provisions for the credit under this section, including provisions to permit
3 verification of the validity and timeliness of the transferred tax credit.

4 **SECTION 2. AMENDMENT.** Section 57-38-01.26 of the North Dakota Century Code is
5 amended and reenacted as follows:

6 **57-38-01.26. (Effective for investments made after June 30, 2017) Angel fund-**
7 **investmentinvestor tax credit.**

- 8 1. A taxpayer is entitled to a credit against state income tax liability under section
9 57-38-30 or 57-38-30.3 for an investment made in an angel fund that is a domestic
10 organization created under the laws of this state. The amount of the credit to which a
11 taxpayer is entitled is forty-five percent of the amount remitted by the taxpayer to an
12 angel fund during the taxable year. The aggregate annual credit for which a taxpayer
13 may obtain a tax credit is not more than forty-five thousand dollars. The aggregate
14 lifetime credits under this section that may be obtained by an individual, married-
15 couple, passthrough entity and its affiliates, or other taxpayer is five hundred thousand
16 dollars. The investment used to calculate the credit under this section may not be used
17 to calculate any other income tax deduction or credit allowed by law.
- 18 2. To be eligible for the credit, the investment must be at risk in the angel fund for at least
19 three years. An investment made in a qualified business from the assets of a
20 retirement plan is deemed to be the retirement plan participant's investment for the
21 purpose of this section if a separate account is maintained for the plan participant and
22 the participant directly controls where the account assets are invested. Investments
23 placed in escrow do not qualify for the credit. The credit must be claimed in the taxable-
24 year in which the investment in the angel fund was received by the angel fund. The
25 credit allowed may not exceed the liability for tax under this chapter. If the amount of
26 credit determined under this section exceeds the liability for tax under this chapter, the
27 excess may be carried forward to each of the seven succeeding taxable years. A
28 taxpayer claiming a credit under this section may not claim any credit available to the
29 taxpayer as a result of an investment made by the angel fund in a qualified business
30 under chapter 57-38.5 or 57-38.6.
- 31 3. An angel fund must:

- 1 a. ~~Be a partnership, limited partnership, corporation, limited liability company, limited~~
2 ~~liability partnership, limited liability limited partnership, trust, or estate organized~~
3 ~~on a for-profit basis which is headquartered in this state.~~
- 4 b. ~~Be organized for the purpose of investing in a portfolio of at least three primary~~
5 ~~sector companies that are early stage and mid-stage private, nonpublicly traded~~
6 ~~enterprises with strong growth potential. For purposes of this section, an~~
7 ~~early stage entity means an entity with annual revenues of up to two million~~
8 ~~dollars and a mid-stage entity means an entity with annual revenues over two~~
9 ~~million dollars not to exceed ten million dollars. Investments in real estate or real~~
10 ~~estate holding companies are not eligible investments by certified angel funds.~~
11 ~~Any angel fund certified before January 1, 2013, which has invested in real estate~~
12 ~~or a real estate holding company is not eligible for recertification.~~
- 13 c. ~~Consist of at least six accredited investors as defined by securities and exchange~~
14 ~~commission regulation D, rule 501.~~
- 15 d. ~~Not have more than twenty five percent of its capitalized investment assets~~
16 ~~owned by an individual investor.~~
- 17 e. ~~Have at least five hundred thousand dollars in commitments from accredited~~
18 ~~investors and that capital must be subject to call to be invested over an~~
19 ~~unspecified number of years to build a portfolio of investments in enterprises.~~
- 20 f. ~~Be member managed or a manager managed limited liability company and the~~
21 ~~investor members or a designated board that includes investor members must~~
22 ~~make decisions as a group on which enterprises are worthy of investments.~~
- 23 g. ~~Be certified as an angel fund that meets the requirements of this section by the~~
24 ~~department of commerce.~~
- 25 h. ~~Be in compliance with the securities laws of this state.~~
- 26 i. ~~Within thirty days after the date on which an investment in an angel fund is made,~~
27 ~~the angel fund shall file with the tax commissioner and provide to the investor~~
28 ~~completed forms prescribed by the tax commissioner which show as to each~~
29 ~~investment in the angel fund the following:~~

- 1 (1) The name, address, and social security number or federal employer-
2 identification number of the taxpayer or passthrough entity that made the
3 investment;
- 4 (2) The dollar amount remitted by the taxpayer or passthrough entity; and
5 (3) The date the payment was received by the angel fund for the investment.
- 6 j. Within thirty days after the end of a calendar year, the angel fund shall file with
7 the tax commissioner a report showing the name and principal place of business
8 of each enterprise in which the angel fund has an investment.
- 9 4. The tax commissioner may disclose to the legislative management the reported
10 information described under paragraphs 2 and 3 of subdivision i of subsection 3 and
11 the reported information described under subdivision j of subsection 3.
- 12 5. Angel fund investors may be actively involved in the enterprises in which the angel
13 fund invests but the angel fund may not invest in any enterprise if any one angel fund
14 investor owns directly or indirectly more than forty-nine percent of the ownership
15 interests in the enterprise. The angel fund may not invest in an enterprise if any one
16 partner, shareholder, or member of a passthrough entity that directly or indirectly owns
17 more than forty-nine percent of the ownership interests in the enterprise.
- 18 6. Investors in one angel fund may not receive more than five million dollars in aggregate
19 credits under this section during the life of the angel fund but this provision may not be
20 interpreted to limit additional investments in that angel fund.
- 21 7. a. A passthrough entity entitled to the credit under this section must be considered
22 to be the taxpayer for purposes of this section, and the amount of the credit
23 allowed must be determined at the passthrough entity level.
- 24 b. For the first two taxable years beginning after December 31, 2010, if a
25 passthrough entity does not elect to sell, transfer, or assign the credit as provided
26 under this subsection and subsection 8, the amount of the total credit determined
27 at the entity level must be passed through to the partners, shareholders, or
28 members in proportion to their respective interests in the passthrough entity.
- 29 c. For the first two taxable years beginning after December 31, 2010, if a
30 passthrough entity elects to sell, transfer, or assign a credit as provided under
31 this subsection and subsection 8, the passthrough entity shall make an

1 irrevocable election to sell, transfer, or assign the credit on the return filed by the
2 entity for the taxable year in which the credit was earned. A passthrough entity
3 that makes a valid election to sell, transfer, or assign a credit shall sell one-
4 hundred percent of the credit earned, may sell the credit to only one purchaser,
5 and shall comply with the requirements of this subsection and subsection 8.

6 8. For the first two taxable years beginning after December 31, 2010, a taxpayer may
7 elect to sell, transfer, or assign all of the earned or excess tax credit earned under this
8 section for investment in an angel fund established after July 31, 2011, subject to the
9 following:

- 10 a. A taxpayer's total credit sale, transfer, or assignment under this section may not
11 exceed one hundred thousand dollars over any combination of taxable years.
12 The cumulative credits transferred by all investors in an angel fund may not
13 exceed fifty percent of the aggregate credits under this section during the life of
14 the angel fund under subsection 6.
- 15 b. If the taxpayer elects to sell, assign, or transfer a credit under this subsection, the
16 tax credit transferor and the tax credit purchaser jointly shall file with the tax
17 commissioner a copy of the purchase agreement and a statement containing the
18 names, addresses, and taxpayer identification numbers of the parties to the
19 transfer, the amount of the credit being transferred, the gross proceeds received
20 by the transferor, and the taxable year or years for which the credit may be
21 claimed. The taxpayer and the purchaser also shall file a document allowing the
22 tax commissioner to disclose tax information to either party for the purpose of
23 verifying the correctness of the transferred tax credit. The purchase agreement,
24 supporting statement, and waiver must be filed within thirty days after the date
25 the purchase agreement is fully executed.
- 26 c. The purchaser of the tax credit shall claim the credit beginning with the taxable
27 year in which the credit purchase agreement was fully executed by the parties. A
28 purchaser of a tax credit under this section has only such rights to claim and use
29 the credit under the terms that would have applied to the tax credit transferor.
30 This subsection does not limit the ability of the tax credit purchaser to reduce the

- 1 tax liability of the purchaser, regardless of the actual tax liability of the tax credit
2 transferor.
- 3 d. ~~A sale, assignment, or transfer of a tax credit under this section is irrevocable and~~
4 ~~the purchaser of the tax credit may not sell, assign, or otherwise transfer the~~
5 ~~credit.~~
- 6 e. ~~If the amount of the credit available under this section is changed as a result of~~
7 ~~an amended return filed by the transferor, or as the result of an audit conducted~~
8 ~~by the internal revenue service or the tax commissioner, the transferor shall~~
9 ~~report to the purchaser the adjusted credit amount within thirty days of the~~
10 ~~amended return or within thirty days of the final determination made by the~~
11 ~~internal revenue service or the tax commissioner. The tax credit purchaser shall~~
12 ~~file amended returns reporting the additional tax due or claiming a refund as~~
13 ~~provided in section 57-38-38 or 57-38-40, and the tax commissioner may audit~~
14 ~~these returns and assess or issue refunds, even though other time periods~~
15 ~~prescribed in these sections may have expired for the purchaser.~~
- 16 f. ~~Gross proceeds received by the tax credit transferor must be assigned to North~~
17 ~~Dakota. The amount assigned under this subsection cannot be reduced by the~~
18 ~~taxpayer's income apportioned to North Dakota or any North Dakota net~~
19 ~~operating loss of the taxpayer.~~
- 20 g. ~~The tax commissioner has four years after the date of the credit assignment to~~
21 ~~audit the returns of the credit transferor and the purchaser to verify the~~
22 ~~correctness of the amount of the transferred credit and if necessary assess the~~
23 ~~credit purchaser if additional tax is found due. This subdivision does not limit or~~
24 ~~restrict any other time period prescribed in this chapter for the assessment of tax.~~
- 25 h. ~~The tax commissioner may adopt rules to establish necessary administrative~~
26 ~~provisions for the credit under this section, including provisions to permit~~
27 ~~verification of the validity and timeliness of the transferred tax credit.~~
- 28 1. For investments made after June 30, 2017, an angel investor is entitled to a credit
29 against the income tax liability under section 57-38-30.3 for investments made by a
30 certified angel fund into an in-state qualified business or an out-of-state qualified
31 business. The credit is equal to thirty-five percent of the amount invested by the angel

1 fund on behalf of the angel investor in an in-state qualified business during the taxable
2 year and twenty-five percent of the amount invested by the angel fund on behalf of the
3 angel investor in an out-of-state qualified business during the taxable year.

4 a. The aggregate amount of credits allowed to an angel investor in a taxable year is
5 limited to forty-five thousand dollars. The aggregate amount of credits allowed to
6 an angel investor for investments made in all taxable years is five hundred
7 thousand dollars. The limitation under this subdivision does not apply to the angel
8 fund but applies to each angel investor.

9 b. The credit must be claimed in the taxable year in which the investment is made in
10 an in-state qualified business or an out-of-state qualified business. The credit
11 allowed may not exceed the liability for tax under this chapter. If the amount of
12 the credit determined under this section exceeds the liability for tax under this
13 chapter, the excess may be carried forward to each of the five succeeding
14 taxable years.

15 c. The investment used to calculate the credit under this section may not be used to
16 calculate any other income tax deduction or credit allowed by law.

17 d. Angel investors may not receive more than five million dollars in aggregate
18 credits under this section during the life of an angel fund but this provision may
19 not be interpreted to limit additional investments in that angel fund.

20 e. Investments placed in escrow do not qualify for the credit.

21 f. A passthrough entity entitled to the credit under this section must be considered
22 to be the taxpayer for purposes of calculating the credit. The amount of the
23 allowable credit must be determined at the passthrough entity level. The total
24 credit determined at the entity level must be passed through to the partners,
25 shareholders, or members in proportion to their respective interests in the
26 passthrough entity. An individual taxpayer may take the credit passed through
27 under this section against the individual's state income tax liability under section
28 57-38-30.3.

29 2. For purposes of this section:

30 a. "Early-stage entity" means an entity with annual revenues of up to two million
31 dollars.

- 1 b. "In-state qualified business" means an early-stage or mid-stage private,
2 nonpublicly traded enterprise that:
- 3 (1) Is created, or its satellite operation is created, as a for-profit entity under the
4 laws of this state.
- 5 (2) Has its principal office in this state and has the majority of its business
6 activity performed in this state, except sales activity, or has a significant
7 operation in this state that has or is projected to have more than ten
8 employees in this state.
- 9 (3) Relies on research or the development of new products and processes in its
10 plans for growth and profitability.
- 11 (4) Is in compliance with state and federal securities laws.
- 12 (5) Is not an entity or enterprise which is engaged in real estate development, is
13 a real estate holding company, derives income from the selling or leasing of
14 residential or commercial real estate, or carries on operations in the hotel,
15 restaurant, convention, or hospitality industries, or makes any other similar
16 use of real estate.
- 17 (6) Is certified as an in-state qualified business that meets the requirements of
18 this section by the department of commerce.
- 19 c. "Investment" means a cash investment in an in-state qualified business or
20 out-of-state qualified business that is made in exchange for common stock, a
21 partnership or membership interest, preferred stock, debt with a mandatory
22 conversion to equity, or an equivalent ownership interest as determined by the
23 tax commissioner.
- 24 d. "Mid-stage entity" means an entity with annual revenues over two million dollars
25 not to exceed ten million dollars.
- 26 e. "Out-of-state qualified business" means an early-stage or mid-stage private,
27 nonpublicly traded enterprise that:
- 28 (1) Is created as a for-profit entity.
- 29 (2) Relies on research or the development of new products and processes in its
30 plans for growth and profitability.
- 31 (3) Is in compliance with state and federal securities laws.

- 1 (4) Is not an entity or enterprise engaged in real estate development, is a real
2 estate holding company, derives income from the selling or leasing of
3 residential or commercial real estate, or carries on operations in the hotel,
4 restaurant, convention, or hospitality industries, or makes any other similar
5 use of real estate.
- 6 (5) Is certified as an out-of-state qualified business that meets the requirements
7 of this section by the department of commerce.
- 8 3. An angel fund must:
- 9 a. Be a passthrough entity organized after June 30, 2017, as a domestic for-profit
10 entity under the laws of this state, and have its headquarters in this state.
- 11 b. Not have invested, or intend on investing during its certification period, in real
12 estate or real estate activities as described under subdivision e of subsection 2.
- 13 c. Consist of at least six accredited investors as defined in regulation D, rule 501 of
14 the federal Securities Act of 1933.
- 15 d. Not have more than twenty-five percent of its capitalized investment assets
16 owned by any one investor.
- 17 e. Have at least five hundred thousand dollars in commitments from accredited
18 investors which are subject to call to be invested over an unspecified number of
19 years to build a portfolio of investments in enterprises.
- 20 f. Be member-managed or a manager-managed limited liability company and the
21 investor members or a designated board that includes investor members must
22 make decisions as a group on which enterprises are worthy of investments.
- 23 g. Be certified as an angel fund that meets the requirements of this subsection by
24 the department of commerce.
- 25 h. Be in, and remain in, compliance with state and federal securities laws, and
26 invest only in in-state qualified businesses or an out-of-state qualified business
27 that are issuing securities in compliance with state and federal securities laws.
- 28 4. On or before December 31, 2019, and every two calendar years thereafter, a minimum
29 of fifty percent of an angel fund's investments, as defined under subdivision b of
30 subsection 2, must be invested into an in-state qualified business.

- 1 5. An angel fund shall hold the investment in an in-state qualified business or an
2 out-of-state qualified business for at least three years from the date of investment. The
3 three-year period does not apply if, before the end of the three-year period:
- 4 a. The investment becomes worthless;
5 b. Eighty percent or more of the assets of the in-state qualified business or
6 out-of-state qualified business are sold;
7 c. The in-state qualified business or out-of-state qualified business is sold;
8 d. The common stock of the in-state qualified business or out-of-state qualified
9 business begins trading on a public exchange; or
10 e. A partner, shareholder, or member of the angel fund dies, in which case the
11 exception to the three-year holding period only applies to the deceased
12 individual's portion of the investment and related credit.
- 13 6. Within thirty days after the date on which an angel fund makes an investment in an
14 in-state qualified business or an out-of-state qualified business, the angel fund shall
15 report the investment to the tax commissioner on forms and in the manner prescribed
16 by the tax commissioner. The report must contain:
- 17 a. The name, address, and federal employer identification number of the angel
18 fund;
19 b. The total amount of the investment from all angel investors investing in the
20 in-state qualified business or out-of-state qualified business;
21 c. The name, address, and social security or federal identification number of each
22 angel investor investing in the in-state qualified business or out-of-state qualified
23 business;
24 d. The amount invested by each angel investor in the in-state qualified business or
25 out-of-state qualified business;
26 e. The type of security received by the angel fund in exchange for the investment;
27 f. The name, address, and federal employer identification number of the in-state
28 qualified business or out-of-state qualified business;
29 g. The type of industry in which the in-state qualified business or out-of-state
30 qualified business is engaged; and

- 1 h. Any other information the tax commissioner determines is necessary for
2 administration of this section.
- 3 7. An angel fund is subject to a penalty of one thousand dollars per month for each
4 month, or fraction thereof, the report under subsection 6 is not filed. The tax
5 commissioner, for good cause shown, may waive all or part of the penalty imposed
6 under this subsection.
- 7 8. By January thirty-first of each year, the angel fund shall file with the tax commissioner
8 a report showing:
- 9 a. The name and address of each in-state qualified business or out-of-state
10 qualified business in which the angel fund has made an investment;
- 11 b. The principal place of business for each in-state qualified business or out-of-state
12 qualified business reported under subdivision a;
- 13 c. The total amount invested in each in-state qualified business or out-of-state
14 qualified business; and
- 15 d. Any other information the tax commissioner determines is necessary for
16 administration of this section.
- 17 9. For an angel fund certified before July 1, 2017, within thirty days after the end of each
18 calendar year, the angel fund shall file with the tax commissioner a report showing the
19 name and principal place of business of each enterprise in which the angel fund has
20 an investment and the amount of the investment.
- 21 10. Upon receipt of a written request from the chairman of the legislative management or
22 the chairman of a standing committee of the legislative assembly, the tax
23 commissioner shall disclose any information described under subsections 6, 8, and 9.
24 This subsection does not authorize disclosure of the angel investor's name, social
25 security number or federal employer identification number, address, or any other
26 information prohibited from disclosure under this chapter.
- 27 11. Angel investors may be actively involved in the in-state qualified businesses or
28 out-of-state qualified businesses in which the angel fund invests but the angel fund
29 may not invest in any in-state qualified business or out-of-state qualified business if
30 any one angel investor owns directly or indirectly more than forty-nine percent of the
31 ownership interests in the in-state qualified business or out-of-state qualified business.

1 The angel fund may not invest in an in-state qualified business or an out-of-state
2 qualified business if any one angel investor is a partner, shareholder, or member of
3 another passthrough entity that directly or indirectly owns more than forty-nine percent
4 of the ownership interests in the in-state qualified business or out-of-state qualified
5 business.

6 12. Failure to comply with any provision of this section is cause to revoke the certification
7 of an angel fund or an in-state qualified business or an out-of-state qualified business,
8 or disallow the credit attributable to the noncompliance.

9 a. Notice of the revocation of the angel fund or an in-state qualified business's or
10 out-of-state qualified business's certification must be provided to the angel fund
11 or the in-state qualified business or out-of-state qualified business by the tax
12 commissioner, department of commerce, or securities commissioner. Within thirty
13 days of receipt of the notice, the angel fund shall provide a copy of the notice to
14 each of its angel investors.

15 b. The angel fund's investors shall file an amended return for each taxable year in
16 which the disallowed credit reduced the investor's income tax liability and pay the
17 amount due. The amended return, if required, must be filed within ninety days
18 after the date of the written notice given to the angel fund.

19 c. If the amended return is not timely filed, the tax commissioner shall disallow the
20 credit and assess any tax due. An assessment of tax made under this subsection
21 is final and irrevocably fixed.

22 d. If an amended return is filed as required under subdivision b, the tax
23 commissioner has two years after the amended return is filed in which to audit
24 and assess any tax due attributable to the revocation of the credit, even though
25 other time periods for assessment under this chapter have expired. This
26 subdivision does not limit or restrict any other time period for assessment under
27 this chapter that has not expired.

28 13. An angel fund or a representative of the fund that knowingly makes, or causes to be
29 made, any material false statement or representation in any application, report, or
30 other document required to be filed under any provision of this section, or omits to
31 state any material statement or fact in any such application, report, or other document

1 required to be filed under any provision of this section, or fails to file the report
2 required in subsection 8 or 9, and after thirty days' notice to file is given by the tax
3 commissioner, is subject to a penalty of ten thousand dollars.

4 14. Notwithstanding any other provision of law, the tax commissioner, securities
5 commissioner, and the department of commerce may exchange any information
6 obtained under this section to the extent necessary to administer this section.

7 **SECTION 3. AMENDMENT.** Subsection 7 of section 57-38-30.3 of the North Dakota
8 Century Code is amended and reenacted as follows:

9 7. A taxpayer filing a return under this section is entitled to the following tax credits:

- 10 a. Family care tax credit under section 57-38-01.20.
11 b. Renaissance zone tax credits under sections 40-63-04, 40-63-06, and 40-63-07.
12 c. Agricultural business investment tax credit under section 57-38.6-03.
13 d. Seed capital investment tax credit under section 57-38.5-03.
14 e. Planned gift tax credit under section 57-38-01.21.
15 f. Biodiesel fuel or green diesel fuel tax credits under sections 57-38-01.22 and
16 57-38-01.23.
17 g. Internship employment tax credit under section 57-38-01.24.
18 h. Workforce recruitment credit under section 57-38-01.25.
19 i. Angel fund investment tax credit under section 57-38-01.26 (effective for the first
20 taxable year beginning after December 31, 2016).
21 j. Microbusiness tax credit under section 57-38-01.27.
22 k. Marriage penalty credit under section 57-38-01.28.
23 l. ~~Homestead income tax credit under section 57-38-01.29.~~
24 m. ~~Commercial property income tax credit under section 57-38-01.30.~~
25 n. Research and experimental expenditures under section 57-38-30.5.
26 o. m. Geothermal energy device installation credit under section 57-38-01.8.
27 p. n. Long-term care partnership plan premiums income tax credit under section
28 57-38-29.3.
29 q. o. Employer tax credit for salary and related retirement plan contributions of
30 mobilized employees under section 57-38-01.31.

