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MEMORANDUM

TO: Interim Joint Committee on Appropriations and Revenue

FROM: Jennifer C. Hays, Committee Staff Administrator
 Interim Joint Committee on Appropriations and Revenue

DATE: July 1, 2023

SUBJECT: Overview and Staff Summary of Confidential Taxpayer Information
 Kentucky Angel Investment Act
 KRS 141.396 and KRS 154.20-230 to 154.20-240

The purpose of this memorandum is to relay summary information to members of the Interim Joint Committee on Appropriations and Revenue related to the tax incentives related to the Kentucky Angel Investment Act. The Department of Revenue and the Cabinet for Economic Development are statutorily required to work jointly, submitting annual tax incentive information for review by the Committee. The taxpayer-specific information contained in the annual report remains confidential and is not available for public use. Posting the full report to the Committee's website may violate KRS 131.190. Therefore, this staff summary is provided.

The statutes creating the angel investment tax incentive were first enacted during the 2014 Regular Session of the Kentucky General Assembly. The purpose of the Kentucky Angel Investment Act is to encourage capital investment in the Commonwealth by individual investors. This investment is required to further the establishment or expansion of small businesses, create additional jobs, and foster the development of new products and technologies. The investors are allowed a tax credit for certain investments in small businesses located in the Commonwealth that are operating in the fields of knowledge-based, high-tech, or research and development sectors, and showing a potential for rapid growth. [KRS 154.20-232]

For taxable years beginning on or after January 1, 2015, the Kentucky Angel Investment Act allows a nonrefundable income tax credit to an individual that makes a cash investment of at least

\$10,000 in a qualified small business. In consideration for the investment, the individual receives an equity interest or a convertible debt instrument in the qualified small business.

In each calendar year, the Kentucky Economic Development Finance Authority (KEDFA) may award no more than \$3 million in total tax credits to all qualified investors and no more than \$200,000 to any individual investor. The amount of credit awarded to an individual investor shall not exceed:

1. Twenty-five percent (25%) of the amount of the investment, if the principal place of business of the small business is outside an enhanced incentive county; or
2. Forty percent (40%) of the amount of the investment, if the principal place of business of the small business is in an enhanced incentive county.

The Cabinet for Economic Development maintains a publicly available website listing:

1. The enhanced counties;
2. Qualified small businesses;
3. Qualified investors; and
4. Other information about the application and approval process.

<https://ced.ky.gov/Entrepreneurship/KAITC>

The following bullet points outline information related to the Kentucky Angel Investment Act.

For calendar year 2022:

- KEDFA certified 60 small businesses to participate in the program.
- An additional 14 businesses did not request certification during the year but were required to meet eligibility criteria and submit an annual report because of qualified investments received in prior years.
- The net worth of the small businesses, divided into ranges of:
 - Less than \$500,000 – 47 of the 74 businesses;
 - \$500,000 to less than \$2 million – 18 of the 74 businesses;
 - \$2 million to less than \$5 million – 4 of the 74 businesses;
 - \$5 million to less than \$10 million – 3 of the 74 businesses;
 - More than \$10 million – 1 of the 74 businesses; and
 - No information listed – 1 of the 74 businesses.
- The qualified activities performed by the small businesses:
 - Health and human development – 15 of the 74 businesses;
 - Environmental and energy technology – 6 of the 74 businesses;
 - Information technology and communications – 41 of the 74 businesses;
 - Bioscience – 6 of the 74 businesses;
 - Materials science and advanced manufacturing – 3 of the 74 businesses;
 - Other new economy knowledge based activity – 2 of the 74 businesses; and
 - No information listed – 1 of the 74 businesses.
- These 74 small businesses employed 377 people during 2022.
- These 74 small businesses maintain a principal location in one of the following 16 counties:

Principal Locations of Small Businesses (by county)	
Adair	Kenton
Bath	Laurel
Calloway	McCracken
Campbell	Nelson
Daviess	Oldham
Fayette	Pike
Jefferson	Warren
Jessamine	Whitley

- The aggregate investments received during the calendar year for all small businesses totaled \$6,122,208.38.
- Sixty-one individuals made an investment in 16 small businesses during calendar year 2022 and were awarded tax credits totaling \$1,480,549.00.

The first Kentucky Angel Investment Act tax credits were awarded beginning on January 1, 2015. Since that time, the following tax credits have been issued by KEDFA:

Total Tax Credits Awarded by Fiscal Year Through 12/31/2022	
FY 2014-2015	\$2,835,543
FY 2015-2016	3,013,941
FY 2016-2017	3,139,520
FY 2018-2019 (program suspended on 1/1/19)	0
FY 2019-2020 (program suspended)	0
FY 2020-2021 (program restarted on 1/1/21)	925,728
FY 2021-2022	1,089,474
FY 2022-2023 (through 12/31/22)	926,287
Total	\$14,938,109

The Department of Revenue reports the following amounts of tax credits claimed by taxable year and the amount remaining to be carried forward to future taxable years.

- For taxable year 2020, 52 taxpayers claimed \$363,554 of tax credit.
- For taxable year 2021, 104 taxpayers claimed \$769,449 of tax credit.
- Two hundred forty-eight taxpayers have remaining tax credits being carried forward to a future taxable year totaling \$2,985,119.