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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: June 20, 2024

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 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. 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 2023:

- KEDFA certified 56 small businesses to participate in the program.
- An additional 9 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 – 35 of the 65 businesses;
 - \$500,000 to less than \$2 million – 15 of the 65 businesses;
 - \$2 million to less than \$5 million – 10 of the 65 businesses;
 - \$5 million to less than \$10 million – 1 of the 65 businesses;
 - More than \$10 million – 2 of the 65 businesses;
 - No information listed - 2 of the 65 businesses.
- The qualified activities performed by the small businesses:
 - Health and human development – 11 of the 65 businesses;
 - Environmental and energy technology – 6 of the 65 businesses;
 - Information technology and communications – 34 of the 65 businesses;
 - Bioscience – 6 of the 65 businesses;
 - Materials science and advanced manufacturing – 5 of the 65 businesses;
 - Other new economy knowledge based activity – 1 of the 65 businesses;
 - No information listed – 2 of the 65 businesses.
- These 65 small businesses employed 319 people during 2023.
- These 65 small businesses maintained a principal location in one of the following 12 counties:

Principal Location of Small Businesses (by county)	
Bath	Jefferson
Boone	Kenton
Carroll	Laurel
Fayette	Logan
Franklin	McCracken
Hopkins	Oldham

- The aggregate investments received during the calendar year for all small businesses totaled \$5,133,364.46.
- Fifty-four individuals made an investment in 19 small businesses during calendar year 2023 and were awarded tax credits totaling \$1,365,814.

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 Credit Awarded by Fiscal Year Through 12/31/2023	
FY 2014-2015	\$2,835,543
FY 2015-2016	3,013,941
FY 2016-2017	3,139,520
FY 2010-2018	3,007,616
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	1,779,601
FY 2023-2024 (through 12/31/23)	512,500
TOTAL	\$16,303,923

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

- For the taxable year beginning January 1, 2021, 90 taxpayers claimed \$647,541 in tax credit.
- For the taxable year beginning January 1, 2022, 111 taxpayers claimed \$805,397 in tax credit.
- Two hundred sixty-three taxpayers have remaining tax credit being carried forward to a future taxable year totaling \$3,660,307.