

# Angel Investor Tax Credit Program

Info Session

September 15, 2022



 **Massachusetts**  
LIFE SCIENCES CENTER

The capital of scientific revolution.

# Agenda

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# Massachusetts Life Sciences Center: Overview

The Massachusetts Life Sciences Center is an economic development quasi-public government agency of the Commonwealth of Massachusetts – a \$1 billion initiative signed into law in 2008 with a mission of supporting the growth and development of the life sciences in Massachusetts. Our mission is to serve as the “hub” of the Massachusetts life sciences ecosystem:

- Strengthen and protect Massachusetts’ global leadership position in the life sciences
- Encouraging innovation through investments in good science and good business
- Accelerate the commercialization of promising treatments, therapies, and cures that will improve patient care
- Create jobs
- Driving economic and workforce development

# Angel Investor Tax Credit: Overview

- Angel Investor Tax Credit program is included in regulation **830 in the Code of Massachusetts Regulations (CMR) 62.6.5**, published July 24, 2020.
- Goal is to encourage angel investment in early-stage life science businesses located throughout Massachusetts.
- Angel Investor Tax Credit total program funding: \$500,000
- Jointly administered by MLSC and MA Department of Revenue
- MLSC's role:
  - Program administration and management
  - Application intake and review
  - Award decision
  - Monitoring for compliance
- MA Department of Revenue:
  - Administration of tax credits filed through individual tax returns

# Angel Investor Tax Credit: Overview

- A **taxpayer investor** making a **qualifying investment** in a **qualifying business** may be allowed a credit up to an amount equal to **20%** of the qualifying investment – up to \$125,000 or \$25,000 max in tax credits per company and \$50,000 max in tax credits across multiple different companies during a calendar year.
- If the qualifying business is located in a **Gateway Municipality** (discussed further in slide 11), the credit may be increased up to **30%** of the amount of the taxpayer's qualifying investment \$37,500 max credit per company.
- The credit may be applied only against tax due under Chapter 62 of Massachusetts General Laws (MGL) i.e. individual Massachusetts income tax.
- Any amount of credit allowed that exceeds a taxpayer investor's tax due for a taxable year under MGL Chapter 62 may be carried forward to any of the three subsequent taxable years.

# Recapture

- MGL Chapter 62, section 6(t) provides for **recapture** if the qualifying business ceases to have its principal place of business in the Commonwealth within the three taxable years following the taxable year of the investment.
- If a taxpayer investor is allowed a credit for an investment in a qualifying business that ceases to have its principal place of business in the Commonwealth within the three taxable years following the taxable year for which the credit was allowed, the taxpayer investor must repay the total credit amount to the Commonwealth.
- Where a taxpayer investor in such a business has unused credit that has been carried forward from a prior year, the taxpayer investor shall not claim any further credits and must repay to the Commonwealth the total amount of credits already claimed.
- A business will be treated as having ceased to have its principal place of business in the Commonwealth if its principal place of business moves out of the Commonwealth, or if it ceases to do business.

# Eligibility: Investor

- An accredited investor as defined by the SEC
- Investor must not:
  - Be the principal owner of the qualifying business; or
  - Work in the qualifying business as a full-time professional activity
- Taxpayer investors can only claim the tax credit **after** proof of eligibility from the MLSC has been obtained. Proof of eligibility evidenced by:
  - Letter evidencing accredited investor status from CPA or lawyer
  - Certificate of good standing issued by Department of Revenue
- Can be a non-resident of Massachusetts as long as they have Massachusetts sourced income subject to tax in the state

# Eligibility: Pass-Through Entities

- Qualifying investments can be made by a pass-through entity, such as an angel group or a family trust.
- Pass-Through entity must apply to be the eligible investor and the entity/group must satisfy the Taxpayer Investor eligibility criteria.
- Credit is passed through to partners or members based on ownership, to be claimed on each of their Massachusetts individual tax returns.
- Investment funds shall not include funding from venture capital funds, hedge funds or commodity funds with institutional investors or investments from a business involved in retail, real estate, professional services, gaming or financial services, etc.

# Eligibility: Qualifying Business

- Principal place of business is in Massachusetts
- Has at least 50% of its employees located in the business' principal place of business (i.e. Massachusetts)
- Employs 20 or fewer full-time employees at the time of the taxpayer investor's initial qualifying investment in a business
- Has a federal tax identification number
- Has gross revenues equal to or less than \$500,000 in the fiscal year prior to claiming eligibility
- Has a fully developed business plan that includes all appropriate long-term and short-term forecasts and contingencies of business operations, including research and development, profit, loss and cash flow projections and details of angel investor funding. Note: this is not optional, it's part of the criteria as defined in the legislation.

# Investment Criteria

- Monetary investment that is at risk and is not secured or guaranteed (such as a loan). The investment needs to be equity or a convertible note that converts into equity.
- Investment must be made from January 1, 2022 – December 31, 2022
- Investments used to support purposes such as capital improvements, equipment, research and development, working capital (wages, etc.)
- Investments cannot be used to support purposes such as repaying a loan, etc.
- Investment fund must come directly from angel investor's own funds.

# Investment Criteria

“Life Sciences” means advanced and applied sciences that expand the understanding of human physiology and have the potential to lead to medical advances or therapeutic applications including, but not limited to:

- Agricultural biotechnology
- Biogenerics
- Bioinformatics
- Biomedical engineering
- Biopharmaceuticals
- Biotechnology
- Chemical synthesis
- Chemistry technology
- Diagnostics
- Genomics
- Image analysis
- Marine biology
- Marine technology
- Medical devices
- Nanotechnology
- Natural product pharmaceuticals
- Proteomics
- Regenerative medicine
- RNA interference
- Stem cell research
- Technology for Life Sciences
- Veterinary science

# Investment Criteria

Credits will be awarded by the MLSC in accordance with our strategic priorities, i.e. expansion outside of Greater Boston area, growth in manufacturing, as well as growth in digital health, data analytics, cell and gene therapy, women's health and support for underrepresented entrepreneurs, which contribute to a balanced and strong portfolio of tax beneficiaries including, but not limited to, consideration of the following:

- A. Ability to continue operations and principal place of business in Massachusetts for four (4) years;
- B. Wide geographic distribution of life sciences operations in Massachusetts;
- C. Wide distribution of life sciences technologies and industries supported by MLSC;
- D. Diversity among businesses at different stages of product development and commercialization;
- E. Encouraging innovative ideas and breakthroughs; and
- F. Supporting underrepresented entrepreneurs including those of marginalized genders and/or racial identities.

# Tax Credit Limitations

- A taxpayer investor may be allowed a credit in connection with up to \$125,000 of qualifying investments per qualifying business per year; and
- Up to \$250,000 in cumulative qualifying investments for each qualifying business.
- In any one taxable year, the total amount of all tax credits available to the investor making qualified investments under 830 CMR 62.6.5(7) shall not exceed \$50,000 (mentioned in previous).
- Note: investors may invest any amount in a qualifying company, the limit is on the amount that would qualify for the tax credit (i.e. 20% of \$125,000 or \$50,000 max in tax credits).

## Example 1:

- Investor A made an investment in MedTech, Inc for \$125,000.
- MedTech, Inc is a qualified business located in Boston.
- Investor A is eligible for 20% tax credit of \$25,000 for MedTech, Inc.
- The following month, Investor A made an investment in Diagnostics, Inc. for \$200,000, with its' principal place of business in Cambridge.
- Investor A is eligible for 20% tax credit up to \$25,000 for Diagnostics instead of \$40,000 due to the annual \$50,000 limitation.

# Tax Credit Limitations: Gateway Municipalities

Investments in qualified businesses located in Gateway Municipalities qualify for a greater credit (**30% of the qualifying investment**)

Current list of Gateway Municipalities:

Attleboro, Barnstable, Brockton, Chelsea, Chicopee, Everett, Fall River, Fitchburg, Haverhill, Holyoke, Lawrence, Leominster, Lowell, Lynn, Malden, Methuen, New Bedford, Peabody, Pittsfield, Quincy, Revere, Salem, Springfield, Taunton, Westfield, and Worcester.

Example 2:

- Investor A made an equity investment in MedTech, Inc for \$125,000.
- MedTech, Inc is a qualified business located in Pittsfield.
- Investor A is eligible for 30% tax credit of \$37,500 for MedTech, Inc.

# Application Process: Overview

1. Apply through MLSC website: two separate applications for the investor AND the business.
2. Deadline for applications is **January 5, 2023** for investments made between January 1, 2022 and December 31, 2022.
3. After deadline closes, applications will be evaluated by MLSC staff.
4. Investors and businesses will then be “Conditionally Approved” pending MLSC Investment Committee/ Board of Directors final approval in February 2023.
5. Investors claim tax credit on their 2022 MA tax return, due April 15, 2023.

# Application Process: Overview

<https://www.masslifesciences.com/programs/angel-investor-tax-credit/>



Welcome to the MLSC Application System

New Users Register Below

- Investment Programs
- Tax Incentive Program
- Training Programs

Applicant Registration

Investor Registration

- Internship Programs

Intern Registration

Company Registration

Login

Email:

Password:

Login

Forgot Password?

Please email [smartsimple@masslifesciences.com](mailto:smartsimple@masslifesciences.com) for technical assistance.

Note: sample applications are available under “**Resources**” on the Angel Tax Incentive webpage

# Application Process: Overview

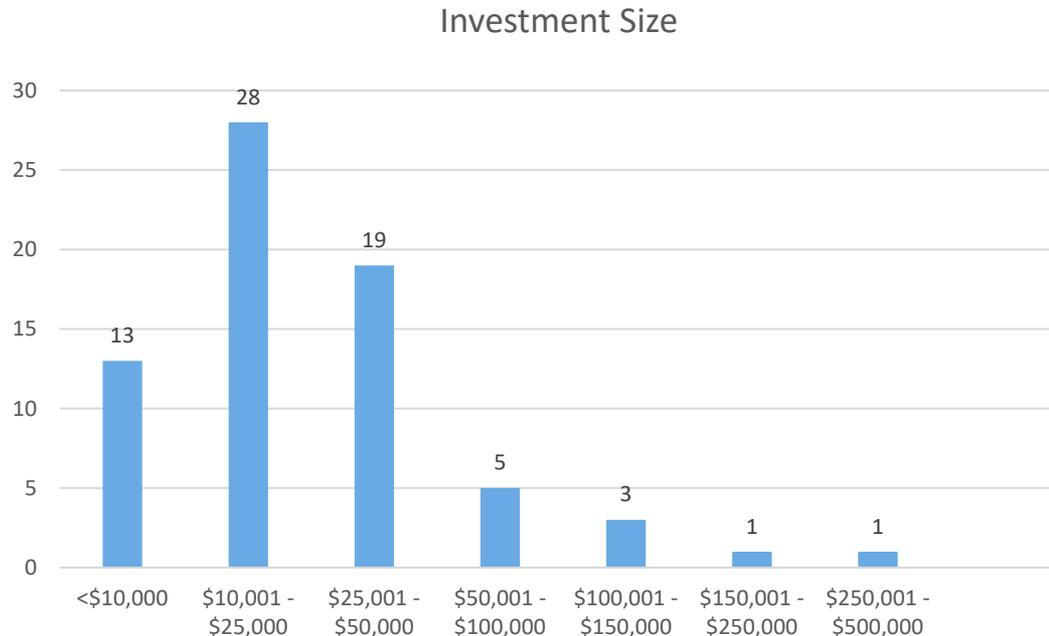
- **Investors** need to upload the following:
  - [Certificate of Good Standing from MA Department of Revenue](#)
  - Certification letter from a CPA or attorney attesting eligibility criteria
- **Businesses** need to upload the following:
  - Business Plan (previously mentioned)
  - Financial Forecast (example online)
  - [Certificate of Good Standing from MA Secretary of State](#)
  - [Certificate of Good Standing from MA Department of Revenue](#)
  - Certification letter from CPA attesting eligibility regarding revenue threshold
  - Note: Applicants should consider deleting information that they contend is confidential.

# Annual Reporting

- Reporting by Qualified Business:
  - Each investment contribution received by the qualifying business including the name and address of the taxpayer investor making the contribution, or other claimant, if applicable, if the contribution is made by a pass-through entity, along with the dollar amount of each such contribution, and the date the contribution was made;
  - The location of the principal place of business; and
  - A list of the uses and dollar amounts to which any qualifying investment was applied or, alternatively, an attestation that no portion of any qualifying investment was used to pay dividends, fund or repay shareholders' loans, redeem shares, and/or repay debt or pay wages or other benefits of the taxpayer investor.
- Reporting by Taxpayer Investor:
  - The amount of the credit claimed by the taxpayer on its return filed that year
  - Additional information requested by MLSC
- Duration: 3 years, following the investment

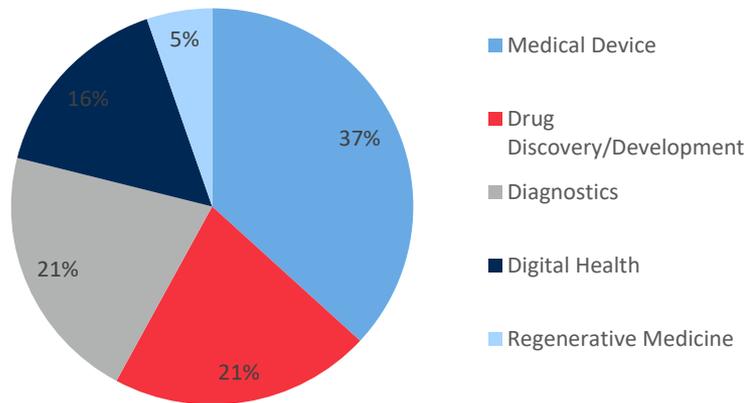
# 2021 Program Data

- MLSC Angel Tax Credit total funding: \$500,000
- In 2021, **70** angel investors committed **\$2.9M** in qualifying investments to **19** companies
- Majority of investments are less than \$50,000 (see chart below)

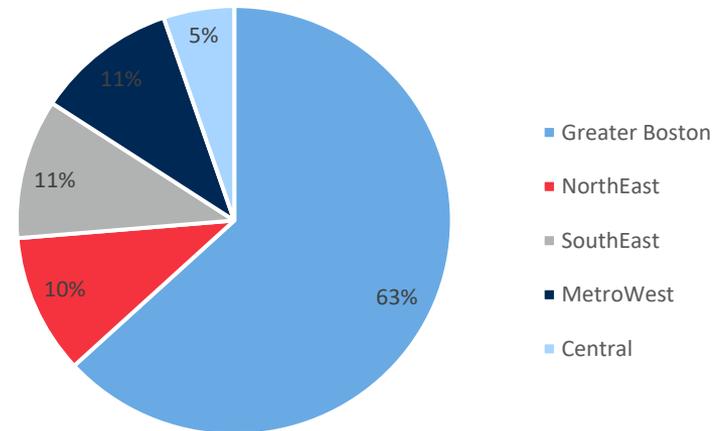


# 2021 Program Data

Sector



Company Location



- Majority of businesses are located in Greater Boston/ Cambridge
- Only one company was located in a Gateway Municipality in Lowell
- Majority of businesses are Medical Device or Drug Discovery companies
- Average Size: a little more than 2 FTE
- More than 25% of companies are lead by a female/ person of color

# Contact Information

Angel Tax Incentive Program:

Website: [www.masslifesciences.com](http://www.masslifesciences.com)

Email: [AngelTax@masslifesciences.com](mailto:AngelTax@masslifesciences.com)

Deadline: January 5, 2023

# Questions?