

SMALL BUSINESS INVESTMENT TAX CREDIT

The Small Business Investment Tax Credit (“SBITC”) Program provides **Qualified Investors** a 25% tax credit over a two year period on **Qualified Investments** in **Qualified Businesses**. Qualified Investments must be made between December 31, 2010 and January 1, 2013 to be eligible for tax credit.

Qualified Investors

Individual investors must meet the following criteria to qualify for the tax credit:

- Must invest alongside or through a venture capital or angel group that is registered with the Michigan Strategic Fund (“MSF”) (“Qualified Investment Group”)
- Must be an individual taxpayer or an incorporated entity subject to Michigan income tax laws as stated in Income Tax Act, PA 281 of 1967
- Must not be related to the owner(s) or employee(s) of the Qualified Business
- Must not have pre-existing fiduciary relationship with the Qualified Business
- Must not have been convicted of a felony involving a fiduciary obligation or the conversion or misappropriation of funds or insurance accounts, theft, deceit, fraud, misrepresentation, or corruption
- Must not have unpaid, or entered into an installment agreement regarding a final assessment of an unpaid liability for a Michigan state tax for which all rights of appeal have been exhausted
- Must not currently be in a bankruptcy proceeding

Qualified Investments

Investments must meet the following criteria to be considered a Qualified Investment:

- Must be at least a \$20,000 investment in a Qualified Business

- Investment must be syndicated with or pass through a Qualified Investment Group
- Can be an equity or debt investment that meets other Qualified Investment eligibility criteria
- Must maintain investment in Qualified Business for at least 3 years unless legitimate exit opportunity occurs
- Qualified Investor must submit an annual report to the MSF on the growth of the Qualified Business

Qualified Businesses

Businesses must meet the following criteria to be considered a Qualified Business:

Statutory Criteria:

- Is a seed or early stage business as defined in Section 3 of the Michigan Early Stage Venture Investment Act of 2003, 2003 PA 296, MCL 125.2233
- Must be domiciled and headquartered in Michigan
- Has a majority of its employees working in Michigan
- Has a pre-investment valuation of less than \$10 million
- Has fewer than 100 FTEs
- Has been in existence less than 5 years, or 10 years if business activity is derived from research at an institution of higher education in Michigan
- No retail establishments as defined by Sec. 44-45, NAICS 1997
- Not a recipient of tax credits from MEGA and/or the Michigan Film Office
- May not be engaged in life sciences technology unless those activities are included in the definition of life sciences as that term is defined under Section 88a of the MSF Act.

MSF Program Criteria:

- Must be an innovative small business with potential for high growth; examples include companies in the fields of advanced materials; alternative energy;

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defense and homeland security; information technology; life science; medical devices; and next-generation manufacturing

- Is not operating a construction, transportation, hotel, motel, restaurant, or real estate business

Qualified Businesses may not receive more than \$1M of Qualified Investments. A small business may seek a preliminary assessment of eligibility indicating that the business satisfies the statutory requirements as of the date of the preliminary assessment to assist in its efforts to solicit investors and raise capital. A small business is not required to undergo a preliminary assessment of eligibility. A nominal fee will be collected to conduct the preliminary eligibility assessment. While a business may be determined to be a qualified business at the time of the assessment, it must be a qualified business at the time the qualified investment was made in order for the tax credit to be available. It is the responsibility of the qualified investor to verify that the small business satisfies the program guidelines and statutory requirements at the time the investment is made.

Please submit the following to undergo a Preliminary Assessment of Eligibility:

1. Small Business Preliminary Eligibility Assessment, Form SBITC-001.
2. Processing fee of \$200 in a cashier's check or money order made payable to the Michigan Strategic Fund (personal checks will not be accepted).

The Michigan Economic Development Corporation ("MEDC") provides administrative services to the MSF and will process preliminary eligibility assessments in a timely manner and will contact your company as soon as a determination has been made. **A preliminary assessment of eligibility is not a binding endorsement by the MSF that the company meets the program**

guidelines and statutory requirements of a Qualified Business as of the date of the investment.

Other Investor Considerations

- Qualified Investors may not claim a credit of more than \$250,000 on an investment in any one Qualified Business, and shall not claim a credit of more than \$250,000 for Qualified Investments in all Qualified Businesses in any one year.
- The credit allowed under the SBITC shall be taken by the taxpayer in equal installments over two years beginning with the tax year in which the certification was issued.
- If the amount of the credit awarded exceeds the tax liability of the Qualified Investor for the tax year, that portion of the credit that exceeds the tax liability for the tax year shall not be refunded but may be carried forward to offset tax liability in subsequent tax years for a period not to exceed 5 tax years or until used up, whichever occurs first.
- The total amount of credits certified by the Michigan Strategic Fund cannot exceed \$9M per calendar year.

APPLICATION PROCESS

Qualified Investors must request a tax credit certificate from the MSF within 60 days of making the qualified investment. Please submit the following in order to be considered for a tax credit certificate under the SBITC:

1. Investor Application, Form SBITC-003
2. Small Business Qualifying Application, Form SBITC-002
3. Registered Investment Group Application, Form SBITC-004

The MEDC will be in contact with you to confirm receipt of your application and answer any questions. We will

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process applications on a timely basis. The MEDC will contact you as soon as a decision has been reached. If approved, you will be required to sign a tax credit agreement outlining the details of the tax credit and investment reporting obligations.

Application forms are available on the MEDC website, www.michiganadvantage.org/Access-to-Capital/Default.aspx. For more information, please contact the MEDC Capital Services team by email at SBITC@michigan.org.