HOUSE BILL No. 2005

By Representative Croft

AN ACT concerning economic development; relating to angel investor tax credits; qualified securities; credit limitations and amounts; investor requirements; qualified Kansas business designation requirements; bioscience businesses; program expiration date; amending K.S.A. 74-8132, 74-8133 and 74-8136 and repealing the existing sections.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 74-8132 is hereby amended to read as follows: 74-8132. As used in this act:

(a) "Angel investor" and "investor" mean an accredited investor who is a natural person or an owner of a permitted entity investor, who is of high net worth, as defined in 17 C.F.R. § 230.501(a), as in effect on the effective date of this act, and who seeks high returns through private investments in start-up companies and may seek active involvement in business, such as consulting and mentoring the entrepreneur. For the purposes of this act, a person who serves as an executive, officer, employee, vendor or independent contractor of the business in which an otherwise qualified cash investment is made is not an "angel investor" and such person shall not qualify for the issuance of tax credits for such investment;

(b) "bioscience business" means what is reflected a business engaged in "bioscience" as defined in K.S.A. 74-99b83, and amendments thereto;

(c) "cash investment" means money or money equivalent in consideration for qualified securities;

(d) "department" means the department of commerce;

(e) "Kansas business" means any business owned by an individual, any partnership, association or corporation domiciled in Kansas, or any corporation, even if a wholly owned subsidiary of a foreign corporation, that does business primarily in Kansas or does substantially all of such businesses' production in Kansas;

(f) "owner" means any natural person who is, directly or indirectly, a partner, stockholder or member in a permitted entity investor;

(g) "permitted entity investor" means: (A) Any general partnership, limited partnership, corporation that has in effect a valid election to be taxed as an S corporation under the United States internal revenue code, or a limited liability company that has elected to be taxed as a partnership
under the United States internal revenue code; and (B) that was established and is operated for the sole purpose of making investments in other entities;

(h) "qualified Kansas business" means the Kansas businesses that are approved and certified as qualified Kansas businesses as provided in K.S.A. 74-8134, and amendments thereto;

(i) "qualified securities" means a cash investment through any one or more forms or combination of forms of financial assistance as provided in this subsection that have been approved in form and substance by the secretary. Such forms of financial assistance are: (1) Any form of equity, such as: (A) A general or limited partnership interest; (B) common stock; or (C) preferred stock, with or without regard to voting rights, without regard to or seniority position, and whether or not convertible into common stock; or (D) any form of subordinate or convertible debt, or both, with warrants or other means of equity conversion attached; or

(2) a any debt instrument, such as a note or debenture that is secured or unsecured, subordinated to the general creditors of the qualified Kansas business debtor and that requires no payments of principal, other than principal payments required to be made out of any future profits of payment from the qualified Kansas business debtor, for at least a seven-year period after commencement of such debt instrument's term and that shall convert to some form of equity prior to the qualified Kansas business debtor raising its next series of funding; and

(j) "secretary" means the secretary of commerce.

Sec. 2. K.S.A. 74-8133 is hereby amended to read as follows: 74-8133. (a) A credit against the tax imposed by article 32 of chapter 79 of the Kansas Statutes Annotated, and amendments thereto, on the Kansas taxable income of an angel investor and against the tax imposed by K.S.A. 40-252, and amendments thereto, shall be allowed for a cash investment in the qualified securities of a qualified Kansas business. For tax year 2020 and all tax years thereafter, the credit shall be in a total amount equal of up to 50% of such investors' cash investment in any qualified Kansas business, subject to the limitations set forth in subsection (b). This tax credit may be used in its entirety in the taxable year in which the cash investment is made except that no tax credit shall be allowed in a year prior to January 1, 2005. If the amount by which that portion of the credit allowed by this section exceeds the investors' liability in any one taxable year, beginning in the year 2005, the remaining portion of the credit may be carried forward until the total amount of the credit is used. If the investor is a permitted entity investor, the credit provided by this section shall be claimed by the owners of the permitted entity investor in proportion to their ownership share of the permitted entity investor.

(b) For tax year 2020 and all tax years thereafter, the secretary of
revenue shall not allow tax credits of more than $50,000 $100,000 for a single Kansas business or a total of $250,000 $350,000 in tax credits for a single year per investor who is a natural person or owner of a permitted entity investor. No tax credits authorized by this act shall be allowed for any cash investments in qualified securities for any year after the year 2024 2026. The total amount of tax credits which that may be allowed under this section shall not exceed:

(1) $4,000,000 during the tax year 2007 and;
(2) $6,000,000 for tax year years 2008 and each tax year thereafter, except that through 2010 and 2012 through 2021;
(3) for tax year 2011, the total amount of tax credits which that may be allowed under this section shall not exceed $5,000,000;
(4) $6,500,000 for tax year 2022;
(5) $7,000,000 for tax year 2023;
(6) $7,500,000 for tax year 2024; and
(7) $8,000,000 for tax year 2025.

The balance of unissued tax credits may be carried over for issuance in future years until 2024 2026.

c) A cash investment in a qualified security shall be deemed to have been made on the date of acquisition of the qualified security, as such date is determined in accordance with the provisions of the internal revenue code.

d) No investor shall claim a credit under this section for cash investments in Kansas venture capital, inc. No Kansas venture capital company shall qualify for the tax credit for an investment in a fund created by articles 81, 82, 83 or 84 of chapter 74 of the Kansas Statutes Annotated, and amendments thereto.

e) Any investor who has not owed any Kansas income tax under the provisions of article 32, chapter 79 of the Kansas Statutes Annotated, and amendments thereto, for the immediate past three taxable years without a current tax liability, who does not reasonably believe that it will owe any such tax for the current taxable year and who makes a cash investment in a qualified security of a qualified Kansas business shall be deemed to acquire an interest in the nature of a transferable credit limited, for tax year 2020 and all tax years thereafter, to an amount equal up to 50% of this cash investment. This interest may be transferred to any natural person of net worth, as defined in 17 C.F.R. § 230.501(a), as in effect on the effective date of this act, whether or not such person is then an investor and be claimed by the transferee as a credit against the transferee's Kansas income tax liability beginning in the year provided in subsection (a). No person shall be entitled to a refund for the interest created under this section. Only the full credit for any one investment may be transferred and this interest may only be transferred one time. A credit acquired by transfer
shall be subject to the limitations prescribed in this section. Documentation
of any credit acquired by transfer shall be provided by the investor in the
manner required by the director of taxation.

(f) The reasonable costs of the administration of this act, the
review of applications for certification as qualified Kansas businesses and
the issuance of tax credits authorized by this act shall be reimbursed
through fees paid by the qualified Kansas businesses and the investors or
the transferees of investors, according to a reasonable fee schedule adopted
by the secretary by rules and regulations in accordance with the rules and
regulations filing act.

Sec. 3. K.S.A. 74-8136 is hereby amended to read as follows: 74-
8136. (a) Tax credits for qualified Kansas businesses are a limited resource
of the state for which the secretary is designated as the administrator. The
purpose of such tax credits is to facilitate the availability of equity
investment in businesses in the early stages of commercial development
and to assist in the creation and expansion of Kansas businesses which
that are job and wealth creating enterprises. To achieve this purpose and to
optimize the use of the limited resources of the state, the secretary is
authorized to issue tax credits to qualified investors in qualified Kansas
businesses. Such tax credits shall be awarded to those qualified Kansas
businesses which that, as determined by the secretary, are most likely to
provide the greatest economic benefit to the state. The secretary may issue
whole or partial tax credits based on an assessment of the qualified
businesses. The secretary may consider numerous factors in such
assessment, including, but not limited to, the quality and experience of the
management team, the size of the estimated market opportunity, the risk
from current or future competition, the ability to defend intellectual
property, the quality and utility of the business model and the quality and
reasonableness of financial projections for the business.

(b) Each qualified Kansas business for which tax credits have been
issued pursuant to this act shall report to the department on an annual
basis, the following: (1) The name, address and taxpayer identification
number of each angel investor who has made cash investment in the
qualified securities of a qualified Kansas business and has received tax
credits for this investment during the preceding year and all other
preceding years; (2) the amounts of these cash investments by each angel
investor and a description of the qualified securities issued in
consideration of such cash investments; (3) the name, address and taxpayer
identification number of each investor to which tax credits issued pursuant
to this act have been transferred by the original angel investor; and (4) any
additional information as the secretary may require pursuant to this act.

(c) The secretary shall transmit annually to the governor, the standing
committee on commerce of the senate and the standing committee on
commerce, labor and economic development of the house of representatives. A report, based upon information received from each qualified Kansas business for which tax credits have been issued during the preceding year, describing the following: (1) The manner in which the purpose, as described in this act, has been carried out; (2) the total cash investments made for the purchase of qualified securities of qualified Kansas businesses during the preceding year and cumulatively since the inception of this act; (3) an estimate of jobs created and jobs preserved by cash investments made in qualified securities of qualified Kansas businesses; and (4) an estimate of the multiplier effect on the Kansas economy of the cash investments made pursuant to this act.

(d) The secretary shall provide the information specified in subsection (c) to the department of revenue on an annual basis. The secretary shall conduct an annual review of the activities undertaken pursuant to this act to ensure that tax credits issued pursuant to this act are issued in compliance with the provisions of this act or rules and regulations promulgated by the department with respect to this act.

(e) Any violation of the reporting requirements set forth in this section shall be grounds for undesignation of a qualified Kansas business under this section.

(f) If the secretary determines that a business is not in substantial compliance with the requirements of this act to maintain its designation, the secretary, by written notice, shall inform the officers of the qualified Kansas business and the business that such business will lose designation as a qualified Kansas business in 120 days from the date of mailing of the notice unless such business corrects the deficiencies and is once again in compliance with the requirements for designation.

(g) At the end of the 120-day period, if the qualified Kansas business is still not in substantial compliance, the secretary shall send a notice of loss of designation to the business, the secretary of the department of revenue and to all known investors in the business. Loss of designation of a qualified Kansas business shall preclude the issuance of any additional tax credits with respect to this business and the secretary shall not approve the application of such business as a qualified Kansas business. Upon loss of the designation as a qualified Kansas business or if a bioscience business loses its designation as a qualified Kansas business under this act by moving its operations outside Kansas within 10 years after receiving financial assistance under this act or a qualified Kansas business that is not a bioscience business loses its designation as a qualified Kansas business under this act by moving its operations outside Kansas within 5 years after receiving financial assistance under this act, such business shall repay such financial assistance to the department, in an amount determined by the secretary. Each qualified Kansas business that loses
such designation shall enter into a repayment agreement with the secretary specifying the terms of such repayment obligation.

(h) Angel investors in a qualified Kansas business shall be entitled to keep all of the tax credits claimed under this act.

(i) The secretary shall adopt rules and regulations in accordance with the rules and regulations filing act necessary to implement the provisions of K.S.A. 74-8131 through 74-8136, and amendments thereto.

Sec. 4. K.S.A. 74-8132, 74-8133 and 74-8136 are hereby repealed.

Sec. 5. This act shall take effect and be in force from and after its publication in the statute book.