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(Original Signature of Member)

113TH CONGRESS  
2D SESSION

**H. R.** \_\_\_\_\_

To amend the Internal Revenue Code of 1986 to allow a credit against income tax for equity investments by angel investors.

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IN THE HOUSE OF REPRESENTATIVES

Mr. CHABOT introduced the following bill; which was referred to the Committee on \_\_\_\_\_

\_\_\_\_\_  
**A BILL**

To amend the Internal Revenue Code of 1986 to allow a credit against income tax for equity investments by angel investors.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Angel Tax Credit Act”.

5 **SEC. 2. ANGEL INVESTMENT TAX CREDIT.**

6 (a) IN GENERAL.—Subpart B of part IV of sub-  
7 chapter A of chapter 1 of the Internal Revenue Code of

1 1986 is amended by adding at the end the following new  
2 section:

3 **“SEC. 30E. ANGEL INVESTMENT TAX CREDIT.**

4 “(a) ALLOWANCE OF CREDIT.—There shall be al-  
5 lowed as a credit against the tax imposed by this chapter  
6 for the taxable year an amount equal to 25 percent of the  
7 qualified equity investments made by a qualified investor  
8 during the taxable year.

9 “(b) LIMITATION.—The amount of the credit allowed  
10 under subsection (a) for any taxpayer for any taxable year  
11 shall not exceed \$250,000.

12 “(c) QUALIFIED EQUITY INVESTMENT.—For pur-  
13 poses of this section—

14 “(1) IN GENERAL.—The term ‘qualified equity  
15 investment’ means any equity investment in a quali-  
16 fying business entity if—

17 “(A) the aggregate amount of such invest-  
18 ments made by the taxpayer during the taxable  
19 year is \$25,000 or more,

20 “(B) such investment is acquired by the  
21 taxpayer at its original issue (directly or  
22 through an underwriter) solely in exchange for  
23 cash, and

1           “(C) such investment is designated for  
2           purposes of this section by the qualifying busi-  
3           ness entity.

4           “(2) EQUITY INVESTMENT.—The term ‘equity  
5           investment’ means—

6           “(A) any form of equity, including a gen-  
7           eral or limited partnership interest, common  
8           stock, preferred stock (other than nonqualified  
9           preferred stock as defined in section 351(g)(2)),  
10          with or without voting rights, without regard to  
11          seniority position and whether or not convert-  
12          ible into common stock or any form of subordi-  
13          nate or convertible debt, or both, with warrants  
14          or other means of equity conversion, and

15          “(B) any capital interest in an entity  
16          which is a partnership.

17          “(3) REDEMPTIONS.—A rule similar to the rule  
18          of section 1202(c)(3) shall apply for purposes of this  
19          subsection.

20          “(d) QUALIFYING BUSINESS ENTITY.—For purposes  
21          of this section—

22          “(1) IN GENERAL.—The term ‘qualifying busi-  
23          ness entity’ means any domestic corporation or part-  
24          nership if such corporation or partnership—

1           “(A) has its headquarters in the United  
2 States,

3           “(B) has gross revenues for the taxable  
4 year preceding the date of the qualified equity  
5 investment of less than \$1,000,000,

6           “(C) employs less than 25 full-time equiva-  
7 lent employees as of the date of such invest-  
8 ment,

9           “(D) has been in existence for less than 7  
10 years as of the date of the qualified equity in-  
11 vestment,

12           “(E) has more than 50 percent of the em-  
13 ployees performing substantially all of their  
14 services in the United States as of the date of  
15 such investment,

16           “(F) is engaged in a high technology trade  
17 or business related to—

18                   “(i)           advanced           materials,  
19 nanotechnology, or precision manufac-  
20 turing,

21                   “(ii) aerospace, aeronautics, or de-  
22 fense,

23                   “(iii) biotechnology or pharma-  
24 ceuticals,

1 “(iv) electronics, semiconductors, soft-  
2 ware, or computer technology,

3 “(v) energy, environment, or clean  
4 technologies,

5 “(vi) forest products or agriculture,

6 “(vii) information technology, com-  
7 munication technology, digital media, or  
8 photonics,

9 “(viii) life sciences or medical  
10 sciences,

11 “(ix) marine technology or aqua-  
12 culture,

13 “(x) transportation, or

14 “(xi) any other high technology trade  
15 or business, as determined by the Sec-  
16 retary of the Treasury, and

17 “(G) has equity investments designated for  
18 purposes of this paragraph.

19 “(2) DESIGNATION OF EQUITY INVEST-  
20 MENTS.—For purposes of paragraph (1)(G), an eq-  
21 uity investment shall not be treated as designated if  
22 such designation would result in the aggregate  
23 amount which may be taken into account under this  
24 section with respect to equity investments in such  
25 corporation or partnership exceeds \$2,000,000, tak-

1       ing into account the total amount of all qualified eq-  
2       uity investments made by all taxpayers for the tax-  
3       able year and all preceding taxable years.

4       “(e) QUALIFIED INVESTOR.—For purposes of this  
5 section—

6           “(1) IN GENERAL.—The term ‘qualified inves-  
7       tor’ means an accredited investor, as defined by the  
8       Securities and Exchange Commission.

9           “(2) EXCLUSION.—The term ‘qualified investor’  
10       does not include—

11           “(A) a person controlling at least 50 per-  
12       cent of the qualifying business entity,

13           “(B) any venture capital fund (within the  
14       meaning of section 203(l) of the Investment  
15       Advisers Act of 1940 (15 U.S.C. 80b-3(l))), or

16           “(C) any bank, savings association, loan  
17       association, trust company, insurance company,  
18       or similar entity whose business activities in-  
19       clude making similar investments to invest-  
20       ments of a venture capital fund (as so defined).

21       “(f) NATIONAL LIMITATION ON AMOUNT OF INVEST-  
22       MENTS DESIGNATED.—

23           “(1) IN GENERAL.—There is an angel invest-  
24       ment tax credit limitation of \$500,000,000 for each  
25       of calendar years 2013 through 2017.

1           “(2) ALLOCATION OF LIMITATION.—The limita-  
2           tion under paragraph (1) shall be allocated by the  
3           Secretary among qualified small business entities se-  
4           lected by the Secretary.

5           “(3) CARRYOVER OF UNUSED LIMITATION.—If  
6           the angel investment tax credit limitation for any  
7           calendar year exceeds the aggregate amount allo-  
8           cated under paragraph (2) for such year, such limi-  
9           tation for the succeeding calendar year shall be in-  
10          creased by the amount of such excess. No amount  
11          may be carried under the preceding sentence to any  
12          calendar year after 2022.

13          “(g) APPLICATION WITH OTHER CREDITS.—

14                 “(1) BUSINESS CREDIT TREATED AS PART OF  
15                 GENERAL BUSINESS CREDIT.—Except as provided in  
16                 paragraph (2), the credit which would be allowed  
17                 under subsection (a) for any taxable year (deter-  
18                 mined without regard to this subsection) shall be  
19                 treated as a credit listed in section 38(b) for such  
20                 taxable year (and not allowed under subsection (a)).

21                 “(2) PERSONAL CREDIT.—

22                         “(A) IN GENERAL.—In the case of an indi-  
23                         vidual who elects the application of this para-  
24                         graph, for purposes of this title, the credit al-  
25                         lowed under subsection (a) for any taxable year

1 (determined after application of paragraph (1))  
2 shall be treated as a credit allowable under sub-  
3 part A for such taxable year.

4 “(B) CARRYFORWARD OF UNUSED CRED-  
5 IT.—If the credit allowable under subsection (a)  
6 by reason of subparagraph (A) exceeds the limi-  
7 tation imposed by section 26(a) for such taxable  
8 year, reduced by the sum of the credits allow-  
9 able under subpart A (other than this section)  
10 for such taxable year, such excess shall be car-  
11 ried to each of the succeeding 20 taxable years  
12 to the extent that such unused credit may not  
13 be taken into account under subsection (a) by  
14 reason of subparagraph (A) for a prior taxable  
15 year because of such limitation.

16 “(h) SPECIAL RULES.—

17 “(1) RELATED PARTIES.—For purposes of this  
18 section—

19 “(A) IN GENERAL.—All related persons  
20 shall be treated as 1 person.

21 “(B) RELATED PERSONS.—A person shall  
22 be treated as related to another person if—

23 “(i) the relationship between such per-  
24 sons would result in the disallowance of  
25 losses under section 267 or 707(b), or

1           “(ii) for purposes of subsection (e),  
2           the person is an individual who is the  
3           spouse of a lineal descendant of an indi-  
4           vidual described in subsection (e)(2)(A).

5           “(2) BASIS.—For purposes of this subtitle, the  
6           basis of any investment with respect to which a cred-  
7           it is allowable under this section shall be reduced by  
8           the amount of such credit so allowed. This sub-  
9           section shall not apply for purposes of sections 1202,  
10          1397B, and 1400B.

11          “(3) RECAPTURE.—The Secretary shall, by reg-  
12          ulations, provide for recapturing the benefit of any  
13          credit allowable under subsection (a) with respect to  
14          any qualified equity investment which is held by the  
15          taxpayer less than 3 years, except that no benefit  
16          shall be recaptured in the case of—

17                 “(A) transfer of such investment by reason  
18                 of the death of the taxpayer,

19                 “(B) transfer between spouses,

20                 “(C) transfer incident to the divorce (as  
21                 defined in section 1041) of such taxpayer, or

22                 “(D) a transaction to which section 381(a)  
23                 applies (relating to certain acquisitions of the  
24                 assets of one corporation by another corpora-  
25                 tion).

1       “(i) REGULATIONS.—The Secretary shall prescribe  
2 such regulations as may be appropriate to carry out this  
3 section, including regulations—

4               “(1) which prevent the abuse of the purposes of  
5 this section,

6               “(2) which impose appropriate reporting re-  
7 quirements, and

8               “(3) which apply the provisions of this section  
9 to newly formed entities.”.

10       (b) CREDIT MADE PART OF GENERAL BUSINESS  
11 CREDIT.—Subsection (b) of section 38 of the Internal  
12 Revenue Code of 1986 is amended—

13               (1) in paragraph (35), by striking “plus”;

14               (2) in paragraph (36), by striking the period at  
15 the end and inserting “, plus”; and

16               (3) by adding at the end the following new  
17 paragraph:

18               “(37) the portion of the angel investment tax  
19 credit to which section 30E(g)(1) applies.”.

20       (c) CONFORMING AMENDMENTS.—

21               (1) Section 1016(a) of the Internal Revenue  
22 Code of 1986 is amended by striking “and” at the  
23 end of paragraph (36), by striking the period at the  
24 end of paragraph (37) and inserting “, and”, and by

1 inserting after paragraph (37) the following new  
2 paragraph:

3 “(38) to the extent provided in section  
4 30E(h)(2).”.

5 (2) The table of sections for subpart B of part  
6 IV of subchapter A of chapter 1 of the Internal Rev-  
7 enue Code of 1986 is amended by adding at the end  
8 the following new item:

“Sec. 30E. Angel investment tax credit.”.

9 (d) **EFFECTIVE DATE.**—The amendments made by  
10 this section shall apply to investments made after Decem-  
11 ber 31, 2013, in taxable years ending after such date.