

Kansas Angel Investor Tax Credit Program

Connecting Creators With Investors

Est. 2005

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What is KAITC?

The purpose of the Kansas Angel Investor Tax Credit act 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 are job and wealth creating enterprises, by granting tax credits against the Kansas income tax liability of investors investing in these businesses...with the primary goal of encouraging individuals to provide **seed-capital** financing for emerging, Kansas businesses engaged in the development, implementation and commercialization of **innovative technologies, products and services**.

- \$6,000,000 in Tax Credits are allotted to this program each year.
- On average approved companies receives \$200,000 in Tax Credits to allocate each year
- Investors receive tax credits at 50% of their investment up to \$50,000 per company per year with a max of \$250,000 in credits per year
- 248 investors invested in Kansas Companies through this program in 2017
 - 191 in State
 - 57 out of state
 - Totaling \$8,362,463.91 in investments

How do tax credits benefit the Investor?

Investing in start up's is risky business 70% of start ups scale too early and 90% of start ups fail. These numbers can hinder an investors want to invest in a start up.

The KAITC program lowers that risk by 50%

Investors get a personal transferable tax credit for their investment in a qualified Kansas business.

- The tax credit is 50% of the investor's cash investment into a qualified Kansas Business up to \$50,000
- The tax credit may be used in its entirety in the taxable year in which the cash investment was made
- The Tax Credits are transferable
- If the amount of the credit exceeds the investors' liability in any one taxable year the remaining portion of credit may be carried forward until the total amount of credit is used
- Investors can receive tax credits up to \$50,000 in tax credits per company they invest in, not to exceed \$250,000 in one year
- If the investor is a permitted entity investor, the credit provided is claimed by the owners of the permitted entity investor in proportion to their ownership share of the permitted entity investor.

What kind of businesses can qualify for the program?

Kansas businesses engaged in the development, implementation and commercialization of **innovative technologies, products and services**

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

- annual gross revenues less than \$5,000,000 in the most recent tax year of the business;
- businesses that are not bioscience businesses must have been in operation for less than five years; bioscience businesses must have been in operation for less than 10 years;
- the business must not have ownership interests in it's self or be publicly traded.
- Owners have made a substantial financial and time commitment to the business
- the business **must not** be engaged primarily in any one or more of the following enterprises:
 - Any service provider set forth in K.S.A. 17-2707, and amendments thereto;
 - the business of banking, savings and loan or lending institutions, credit or finance, or financial brokerage or investments;
 - the provision of professional services, such as legal, accounting or engineering services;
 - governmental, charitable, religious or trade organizations;
 - the ownership, development, brokerage, sales or leasing of real estate;
 - insurance;
 - construction or construction management or contracting;
 - business consulting or brokerage;
 - any business engaged primarily as a passive business, having irregular or noncontinuous operations
 - any Kansas certified capital formation company;
 - any activity that is in violation of the law; and
 - any business raising money primarily to purchase real estate, land or fixtures; and

What kind of businesses DON'T qualify for the program?

Any business not engaged in the development, implementation and commercialization of **innovative technologies, products and services**

Does not have its headquarters in Kansas
AND

More than **40%** of Employees located outside of Kansas

OR

More than **20%** of operations is outside of Kansas

the business **must not** be engaged primarily in any one or more of the following enterprises:

- Any service provider set forth in K.S.A. 17-2707, and amendments thereto;
- the business of banking, savings and loan or lending institutions, credit or finance, or financial brokerage or investments;
- the provision of professional services, such as legal, accounting or engineering services;
- governmental, charitable, religious or trade organizations;
- the ownership, development, brokerage, sales or leasing of real estate;
- insurance;
- construction or construction management or contracting;
- business consulting or brokerage;
- any business engaged primarily as a passive business, having irregular or noncontinuous operations
- any Kansas certified capital formation company;
- any activity that is in violation of the law; and
- any business raising money primarily to purchase real estate, land or fixtures; and

What is a Qualified Security in KAITC?

A **cash** investment through any one or more forms of financial assistance as provided in this subsection that have been approved in form and substance by the secretary.

- Any form of equity, such as:
 - A general or limited, partnership interest;
 - common stock;
 - preferred stock, with or without voting rights, without regard to seniority position, and whether or not convertible into common stock; or
 - any form of subordinate or convertible debt, or both, with warrants or other means of equity conversion attached; or (example: SAFE Note)
- A debt instrument, such as a note or debenture that is secured or unsecured, subordinated to the general creditors of the debtor and **requires no payments of principal**, other than principal payments required to be made out of any future profits of the debtor, for at least a **seven-year** period after commencement of such debt instrument's term
- **Note worthy info:** all Convertible Debt Agreements will need to comply with the **seven year period** required for payments of principal on debt instruments under K.S.A. 74-8132(i)(2). Because convertible debts act as a hybrid between equity and debt, to the extent that such note is a debt instrument prior to and in lieu of a conversion to equity, the debt instrument aspect of the note will be required to meet the statutory requirements for a debt instrument.

Who can be an Angel Investor in KAITC?

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)

Who can NOT be an Angel Investor in KAITC?

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;

- Any **natural person** whose individual net worth, or joint net worth with that person's spouse, exceeds \$1,000,000.
- Any **natural person** with income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000
- A revocable trust, with total assets in excess of \$5,000,000, **not formed for the specific purpose of acquiring the securities offered**
- Any entity in which **all** of the **equity owners** are accredited investors. **(any general partnership, limited partnership, corporation that is **taxed as an S corporation** or a limited liability company that has elected to be taxed as a partnership **and** that was established and is operated **for the sole purpose of making investments** in other entities; All owners must be natural persons)**

Investors must register for their credits to be issued

If an Angel is seeking tax credits for their investment they must register on the KAITC website.

Registration is mandated to insure the Investor is an Accredited Investor and is eligible for the tax credits through KAITC.

Investors commonly register and pay the Investor fee at the beginning of the year so they don't have to worry about it though out the year as they invest. **Preregistering** is preferred by KDC and helps streamline the issuance of credits.

- Investor registering is quick:
 - Name
 - Address
 - Phone
 - Social Security Number
 - Attestation of Eligibility
 - \$150 registration fee

This is done once a year by every investor seeking credits.

How to apply for KAITC

To apply for KAITC you must provide documents to prove you qualify for the program per [KSA 74-8134](#).

These are all documents you should have readily available if you are seeking outside investment or loans for your start up.

Applications are online at
www.Kansasangels.com

- Proof you are a Kansas company: Articles certified by the Secretary of State
- Complete Business plan
- Executive summary
- Know your Target Market
- Statement on the innovativeness of your produce, service or technology: Why are you different?
- Statement of potential economic impact: How many jobs and the type, how many locations? Where will you be located? The impact your presence will have on the community
- Description of the securities offered (this can be a sample draft)
- Current **and** Projected financial statements
- Your NAICS Code
- The amount of tax credits you are applying for and what their use will be
- List of all owners with % of ownership and amount invested for ownership
- Current Management staff with statement of background
- Current **and** projected employee numbers (paid employees KCNS-100)
- Current **Board of Directors** and/ or **Advisors** with statement of background
- If you have expected investors who are they?



Is there any other
knowledge I can unlock
for you regarding the
KAITC program?