



Illinois Department of Commerce & Economic Opportunity

OFFICE OF ENTREPRENEURSHIP,
INNOVATION & TECHNOLOGY

JB Pritzker, Governor

Illinois Angel Investment Tax Credit Program

Presented by:

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Deputy Director



This program encourages investments in innovative, early-stage companies to help obtain the working capital needed to further their growth in Illinois.

Investors in companies certified as Qualified New Business Ventures (QNBVs) can receive a state tax credit equal to 25% of their investment.

A total of \$10 million in Angel Investment tax credits are allocated in each calendar year.

Set-Asides

\$500,000

**Minority-Owned, Women-Owned or
Person with a Disability-Owned**

(as those terms are used and defined in
the Business Enterprise for Minorities,
Women, and Persons with Disabilities Act
- <https://bit.ly/2EGTixs>)

\$500,000

Rural

(principal place of business in county with
a population of not more than 250,000)

This includes all counties aside from Cook,
DuPage, Lake, Will, Kane, McHenry,
Winnebago, St. Clair and Madison.

Allocation Schedule

Q	Start	End	Main	WMD	Rural	Total
1	1/1/2021	3/31/2021	\$3,150,000	\$175,000	\$175,000	\$3,500,000
2	4/1/2021	6/30/2021	\$3,150,000	\$175,000	\$175,000	\$3,500,000
3	7/1/2021	9/30/2021	\$1,800,000	\$150,000	\$150,000	\$2,100,000
4	10/1/2021	12/31/2021	\$900,000			\$900,000
						\$10,000,000

- Any portion of the allocated allowable amount remaining unused as of the end of any of the first three quarters are rolled into, and added to, the total allocated amount for the next quarter.
- The reservation of tax credits for investments in minority-owned businesses, women-owned businesses, businesses owned by a person with a disability, and businesses in counties with a population of not more than 250,000 people is limited to the first three quarters, after which they may be claimed by investors in any QNBV.

Steps for Obtaining Tax Credits

1. Business must apply to be certified as a Qualified New Business Venture (QNBV) through the application form found online (shown below)
2. Investor must apply for tax credits through the application form found online (shown below)

NOTE: IN ORDER FOR THE INVESTOR TO CLAIM TAX CREDITS, THE BUSINESS MUST FIRST BE APPROVED AS A QNBV FOR THE PROGRAM, THE INVESTMENT MUST BE MADE ON OR AFTER THE QNBV CERTIFICATION DATE IN THE ELIGIBLE CALENDAR YEAR AND THE INVESTOR APPLICATION MUST MEET ALL OTHER ELIGIBILITY REQUIREMENTS.

Calendar Year 2021 Application Documents

1. • [QNBV Application](#) (*application for businesses to be part of the program*)
2. • [Investor Claimant Application](#) (*application for investors to apply for tax credits following an investment into an eligible QNBV*)

Calendar Year 2021 Reporting Documents

- [QNBV Annual Report](#)
- [Investor Claimant Annual Attestation of Investment](#)

Documents Needed for QNBV Application

1. A screen capture or copy of a current and active Illinois Secretary of State **Certificate of Good Standing**.
 - A link to obtain this information is included on the QNBV Application form.
2. A current **capitalization table**.
 - Applicants must use the template provided to ensure the review committee has all the information necessary.
 - NOTE: If the cap table does not clearly and directly reflect the dollar amount invested by each investor and a total equaling your entry for Total Aggregate Investments Received to Date entered in the application form itself, the business will be denied with the opportunity to appeal and this will slow down the application process.
3. The **certification form** provided through a link in the application form.
4. If the business qualifies as a minority-owned, women-owned or person with a disability-owned business (as those terms are used and defined in the Business Enterprise for Minorities, Women, and Persons with Disabilities Act), documentation to serve as proof.
 - This could include, but is not limited to any of the following:
 - Passport
 - State ID
 - Driver's License
 - Any certifications obtained

Eligibility Requirements for Businesses

1. Principal place of business must be in Illinois
2. At least 51% of the employees employed by the business must be located in Illinois
 - Employee is defined as any founder, FTE or FTE equivalent.
3. Must have the potential for increasing jobs in Illinois, increasing capital investment in Illinois, or both
4. Must be principally engaged in innovation in a qualifying sector as defined in the statute OR undertaking pre-commercialization activity related to proprietary technology that includes one of the following:
 - Conducting research
 - Developing a new product or business process
 - Developing a service that is principally reliant on applying proprietary technology
5. Must not be principally engaged in a disqualifying sector as defined by statute
6. Must have fewer than 100 employees
7. Must have been in operation in Illinois for not more than 10 consecutive years
8. Must have received not more than \$10,000,000 in aggregate investments to date
9. Must agree to maintain a minimum employment threshold (at least 51% of the business' employee positions in Illinois and at least 75% of the business' employee positions created following a receipt of an investment located in Illinois) for 3 years from the date of the last tax credit certificate issued for an investment into the business
10. Must have received not more than \$4,000,000 in investments that qualified for tax credits

Eligibility Requirements for Businesses

Qualifying sectors for innovation:

- Manufacturing
- Biotechnology
- Nanotechnology
- Communications
- Agricultural sciences
- Clean energy creation or storage technology
- Processing or assembling products including any of the following:
 - Medical devices
 - Pharmaceuticals
 - Computer Software
 - Computer hardware
 - Semiconductors
 - Other innovative technology products
 - Products that are produced using manufacturing methods that are enabled by applying proprietary technology
- Providing services that are enabled by applying proprietary technology

Disqualifying sectors for innovation:

- Real estate development
- Insurance
- Banking
- Lending
- Lobbying
- Political consulting
- Professional services provided by:
 - Attorneys
 - Accountants
 - Business consultants
 - Physicians
 - Health care consultants
- Wholesale or retail trade
- Leisure
- Hospitality
- Transportation
- Construction (except construction of power production plants that derive energy from a renewable energy resource as defined in Section 1 of the Illinois Power Agency Act)

Applying for QNBV Certification

As of January 2, 2020, we have implemented the digital application form which is much easier to fill out.

Once submitted, the applicant will see a confirmation page appear and receive a confirmation email with a copy of the submission for their records.

Typical turnaround time is up to 2 weeks. A public review committee schedule is posted on the website.

Top Causes for Delay:	Capitalization table that does not clearly and directly reflect the dollar amount invested by each investor and a total equaling the entry for Total Aggregate Investments Received to Date entered in the application form itself.
If Approved:	The applicant will receive an email stating the business has been approved as a QNBV and the email will include an attached QNBV certificate which should be shared with their investors.
If Denied:	The applicant will receive an email stating the business has been denied and will provide reasoning for such determination. If the applicant would like to appeal the determination, they can do so by following the instructions provided in the denial email.

QNBV certificates are only good through December 31st of the calendar year for which the QNBV certificate is issued. If a QNBV would like to apply again on January 1st of the following year, they may do so using the same process noted here. There is no renewal process for QNBVs.

Follow-Up for QNBV

Each business certified as a QNBV that receives an investment giving rise to the issuance of a tax credit certificate needs to submit a QNBV Annual Report to Illinois Department of Commerce and Economic Opportunity for each of the 3 years following the issue date of the last tax credit certificate issued with respect to the QNBV.

If no tax credit certificates are issued to investors for investments in a QNBV, the annual report is not required.

The report can be found on the website (shown below)

Calendar Year 2021 Application Documents

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Calendar Year 2021 Reporting Documents

- ➔ • [QNBV Annual Report](#)
- [Investor Claimant Annual Attestation of Investment](#)

QNBV Noncompliance

Noncompliance with the program can only occur if the business certified as a QNBV receives an investment giving rise to the issuance of a tax credit certificate. If this is not the case, the QNBV cannot be found noncompliant.

A QNBV may be found in noncompliance for:

- Failing to maintain the minimum employment threshold (at least 51% of the business' employee positions in Illinois and at least 75% of the business' employee positions created following a receipt of an investment located in Illinois) through the date 3 years from the issue date of the last tax credit certificate issued with respect to the business.
- Failing to provide the Illinois Department of Commerce and Economic Opportunity or the Illinois Department of Revenue with information and records necessary to verify compliance.
- Failing to submit the Annual QNBV Report.
- Otherwise not being in compliance with the program.

QNBV Annual Report

THIS IS ONLY NECESSARY IF A QNBV HAS RECEIVED AN INVESTMENT GIVING RISE TO THE ISSUANCE OF A TAX CREDIT CERTIFICATE.

The report asks questions about terms of any liquidity event, number of employees and locations, average salary of employees and capital raised.

Due Dates for Reports:

- The 1st report period will start on the date the QNBV was certified and end December 31st of the following year. The due date is a month later on January 31st.
- The 2nd report period will include the one year period following the 1st QNBV Annual Report period. The due date is a month later on January 31st.
- The 3rd report period will include the one year period following the 2nd QNBV Annual Report period. The due date is a month later on January 31st.

An example for a QNBV certified in 2021 is shown below.

Reporting Period Start Date	Reporting Period End Date	Report Number	Due Date
QNBV Certification Date (2021)	12/31/2022	1 st Report	1/31/2023
1/1/2023	12/31/2023	2 nd Report	1/31/2024
1/1/2024	12/31/2024	3 rd Report	1/31/2025

Documents Needed for Investor/Claimant Application

1. **Proof funds were transferred AND received** by the business.
 - Acceptable documentation may include front and back of check or incoming wire documentation from the QNBV.
 - Proof for both transferred and received funds must include dates. “Pending” will not be accepted.
2. The **complete** and executed **legal document detailing the investment**.
3. The **certification form** provided through a link in the application form.

Eligibility Requirements for Investors

Eligible applicants are any of the following who has made an investment in a QNBV and has a direct or indirect ownership interest of LESS THAN 51% in the profits, capital, or value of the QNBV receiving the investment and is NOT a “related member”:

- Corporation
- Partnership
- Limited Liability Company
- Natural person

Ineligible applicants are as follows:

- Any investor who has a direct or indirect ownership interest of 51% OR MORE in the profits, capital, or value of the QNBV receiving the investment.
- A “related member”.

Eligibility Requirements for Investors

“Related Member”

Individual

An individual, if the individual and the members of the individual’s family (as defined in Section 318 of the Internal Revenue Code) own directly, indirectly, beneficially, or constructively in the aggregate, at least 50% of the value of the outstanding profits, capital, stock, or other ownership interest in the QNBV that is the recipient of the applicant’s investment.

- The Internal Revenue Code defines members of family as follows:
 - A spouse (other than a spouse who is legally separated from the individual under a decree of divorce or separate maintenance), and
 - Children, grandchildren and parents.
 - (A legally adopted child of an individual shall be treated as a child of such individual by blood.)

Partnership, Estate, or Trust

- A partnership, estate, or trust and any partner or beneficiary, if the partnership, estate or trust and its partners or beneficiaries own directly, indirectly, beneficially, or constructively, in the aggregate, at least 50% of the profits, capital, stock, or other ownership interest in the QNBV that is the recipient of the applicant’s investment.

Eligibility Requirements for Investors

“Related Member”

Corporation

- A corporation and any party related to the corporation in a manner that would require an attribution of stock from the corporation under the attribution rules of Section 318 of the Internal Revenue Code, if the applicant and any other related member own, in the aggregate, directly, indirectly, beneficially, or constructively, at least 50% of the value of the outstanding stock of the QNBV that is the recipient of the applicant’s investment.
- The Internal Revenue Code notes attribution from corporations as follows:
 - If 50 percent or more in value of the stock in a corporation is owned, directly or indirectly, by or for any person, such person shall be considered as owning the stock owned, directly or indirectly, by or for such corporation, in that proportion which the value of the stock which such person so owns bears to the value of all the stock in such corporation.
 - A corporation and any party related to that corporation in a manner that would require an attribution of stock from the corporation to the party or from the party to the corporation under the attribution rules of Section 318 of the Internal Revenue Code, if the corporation and all such related parties own, in the aggregate, at least 50% of the profits, capital, stock or other ownership interest in the QNBV that is the recipient of the applicant’s investment.

Eligibility Requirements for Investors

“Related Member”

Person

- A person to or from whom there is an attribution of ownership of stock in the QNBV that is the recipient of the applicant’s investment in accordance with Section 1563(e) of the Internal Revenue Code, except that for purposes of determining whether a person is a related member under this paragraph, “20%” shall be substituted for “5%” whenever “5%” appears in Section 1563(e) of the Internal Revenue Code.

Eligibility Requirements for Investments

Eligible investments are those that meet the following requirements:

- Must be made in a certified QNBV.
- Must be made on or after the date the QNBV was certified to participate in the program and within the eligible calendar year.
- Must be \$10,000 minimum and \$2,000,000 maximum.
- Investment must remain (except in the event of a “qualifying liquidity event”) in the QNBV for a minimum of 3 years
 - “Qualifying liquidity event” means any event that would be considered an exit for an illiquid investment, including any event that allows the equity holders of the business (or any material portion of the business) to cash out some or all of their respective equity interests in which the claimant does not convey an equity interest to the QNBV or a related member of the qualified new business venture.
- Must be given at a risk of loss and in consideration for an equity interest of the QNBV. An investment is at risk of loss if its repayment depends entirely upon the success of the business operations of the QNBV. A contingent equity investment is an investment.
 - “Contingent equity investment” means money (or its equivalent) given to a qualified new business venture in consideration for a future equity interest that matures or converts to equity within three years after the investment. If the agreement governing the investment does not provide for mandatory and unconditional conversion within three years after the investment, the investment will not be considered a contingent equity investment. Contingent equity investments that have features of a debt instrument may be ineligible for a tax credit if the agreement contains unreasonable risk mitigation provisions.
 - “Unreasonable risk mitigation provisions” means investment terms that remove a significant degree of the risk of loss during the three years following the investment. Examples of these provisions include provisions for interest payments, security, and priority in the event of liquidation.

Applying for the Investor Tax Credit

Tax credits are issued on a first come, first served basis and will be 25% of the investment made into a QNBV so long as the investor and investment meet eligibility criteria and the program has not reached its issuance limit of \$10,000,000 in tax credits.

As of January 2, 2020, we have implemented the digital application form which is much easier to fill out.

Once submitted, the applicant will see a confirmation page appear and receive a confirmation email with a copy of the submission for their records.

Typical turnaround time is 3-4 weeks.

Top Causes for Delay:	<p>Using a QNBV number from a previous year. (For 2021, all QNBV numbers end with “K”.)</p> <p>Date of Investment entered in application not matching date shown in proof for transfer of funds to QNBV.</p> <p>Not including proof for <u>BOTH</u> transferring and receiving of funds.</p> <p>Submission of incomplete agreement.</p> <p>Rounding dollar amount when entering Investment Amount in application. (Example: Entering \$125,000.00 when actual investment is \$124,999.01.)</p> <p>Not including a mandatory 3 year conversion clause for a SAFE.</p>
If Approved:	<p>The applicant will receive an email stating the investor application has been approved and the email will include an attached tax credit certificate stating the amount of the tax credit to which the applicant is entitled.</p>
If Denied:	<p>The applicant will receive an email stating the application has been denied and will provide reasoning for such determination. If the applicant would like to appeal the determination, they can do so by following the instructions provided in the denial email.</p>

Follow-Up for Investors

Each investor who received tax credits through the Program must submit an Annual Attestation of Investment to the Illinois Department of Commerce and Economic Opportunity for each of the 3 years following the date of their investment into the QNBV.

If no tax credit certificates are issued to investors for investments in a QNBV, the annual attestation is not required.

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Claiming the Investor Tax Credit

- The tax credit can be applied toward the investor's Illinois income tax liability for the taxable year in which the investment was made.
- The credit may not exceed the taxpayer's Illinois income tax liability for the taxable year.
- If the amount of the credit exceeds the Illinois income tax liability for the year, the excess may be carried forward and applied to the tax liability of the 5 taxable years following the excess credit year.
- The credit shall be applied to the earliest year for which there is a tax liability.
- If there are credits from more than one tax year that are available to offset a liability, the earlier credit shall be applied first.
- In the case of a partnership or Subchapter S Corporation, the credit is allowed to the partners or shareholders in accordance with the determination of income and distributive share of income under Sections 702 and 704 and Subchapter S of the Internal Revenue Code.
- A claimant may not sell or otherwise transfer a credit award for this program to another person or entity.

Claimant Noncompliance

If Illinois Department of Commerce and Economic Opportunity determines that a claimant who has received tax credits through the program OR a QNBV that was the recipient of an investment through the program is not in compliance with the requirements of the program, the claimant shall pay to Illinois Department of Revenue, in the manner prescribed by Illinois Department of Revenue, the amount of the credit that the claimant received related to the investment.

A claimant may be found in noncompliance if:

- The claimant does not hold the investment for which the claimant is allowed an Angel Investment Tax Credit Program tax credit for at least 3 years. This 3 year holding requirement does not apply if the investment is sold as part of a qualifying liquidity event or if the QNBV ceases operations and the investment no longer has any value
- In the case of an investment made in the form of a contingent equity investment, there is no conversion to equity within 3 years after the investment.
- The claimant fails to provide Illinois Department of Commerce and Economic Opportunity or Illinois Department of Revenue with information and records necessary to verify compliance with the program. This includes, but is not limited to, copies of any investment agreement.

Thank you for
your interest in
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