

MANUFACTURING

in Lehman's Terms

Seed Capital Investment Tax Credit



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Economic development activity is still strong in North Dakota and many of the projects are very large relative to past years. The size of the proposed new ag processing plants, value added energy, and data operations eclipse what we have seen in the previous years. With project investment running in the hundreds of millions of dollars, the financing needs are much more complex than what we may see with basic manufacturing startups running in the couple million-dollar range. For this reason, I covered the Angel Investor Investment Credit last month and I would like to cover the Seed Capital Investment Tax Credit this month. These two programs can be crucial in bringing some of these investment dollars onboard.

The Seed Capital Investment Tax Credit was set up to incentivize those individuals wanting to invest in qualified North Dakota businesses. This investment must be cash invested in a new or existing business to cover the working capital needs. This includes monies for plant, equipment, research and development, marketing and sales activity, or working capital.

This tax credit is equal to 45% of the amount invested by the eligible taxpayer in a given tax year. An investor may invest in multiple businesses, but is limited to annual and lifetime credits of \$112,000 and \$500,000, respectively. If an investor owns a controlling interest in the qualified business or receives more than 50% of their gross annual income from the qualified business, they nor their immediate family are entitled to the credit. The credit can be carried forward for up to four years and is allowed to run through passthrough entities. It should be noted that in each calendar year, no more than \$3.5 million will be extended by the state accumulatively for all companies participating. The priority for these credits is based on the date of the investment.

To qualify for this credit, the business must be certified by the North Dakota Department of Commerce Division of Economic Development and Finance.

For a business to qualify, it must:

- Be a for-profit business certified as primary sector through Commerce.
- Hire North Dakota residents to fill a majority of the employment positions in North Dakota.
- Be headquartered in North Dakota and conduct a majority of its business (aside from sales) in the state or have a significant business operation in North Dakota with current or projected employment of more than 10 employees or \$150,000 of annual sales.
- Be engaged in research and development of new products or processes.
- NOT derive its income from real estate or ag commodity processing.
- Be compliant with state securities laws.

Application and reporting requirements

For the investors to get the tax credit, the business must:

- Apply for [Primary sector certification](#) through Commerce.
- Complete an [Application for Certification as a Qualified Business for the Seed Capital Investment Tax Credit form](#) through Commerce.
- Complete an investment reporting form prescribed through the North Dakota Office of the Tax Commissioner.
- Provide copies of the investment to the investor, tax department, and commerce.

Additional information regarding the Seed Capital Business Investment Tax Credit can be found [here](#) or you can contact the Commerce Economic Development and Finance Division at (701) 328-5300.

For additional information regarding incentives programs or general manufacturing inquiries in North Dakota, please feel free to contact me, and thanks for investing in North Dakota!

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