

109TH CONGRESS
1ST SESSION

H. R. 4565

To amend the Small Business Investment Act of 1958 to establish the
Angel Investment Program.

IN THE HOUSE OF REPRESENTATIVES

DECEMBER 15, 2005

Ms. VELÁZQUEZ (for herself, Mr. BARROW, Ms. BEAN, Ms. BORDALLO, Mr. CASE, Mrs. CHRISTENSEN, Mr. DAVIS of Illinois, Mr. GRIJALVA, Mr. MICHAUD, Ms. MILLENDER-McDONALD, Ms. MOORE of Wisconsin, and Ms. LINDA T. SÁNCHEZ of California) introduced the following bill; which was referred to the Committee on Small Business, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Small Business Investment Act of 1958 to
establish the Angel Investment Program.

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 “Angels Nurture Grow-
5 ing Entrepreneurs into Long-term Successes (ANGELS)
6 Act”.

1 **SEC. 2. ESTABLISHMENT OF ANGEL INVESTMENT PRO-**
2 **GRAM.**

3 (a) ESTABLISHMENT.—Title III of the Small Busi-
4 ness Investment Act of 1958 (15 U.S.C. 681 et seq.) is
5 amended by adding at the end the following new part:

6 **“PART C—ANGEL INVESTMENT PROGRAM**

7 **“SEC. 380. OFFICE OF ANGEL INVESTMENT.**

8 “(a) ESTABLISHMENT.—There is established, in the
9 Investment Division of the Small Business Administra-
10 tion, the Office of Angel Investment.

11 “(b) DIRECTOR.—The head of the Office of Angel In-
12 vestment is the Director of Angel Investment.

13 “(c) DUTIES.—Subject to the direction of the Sec-
14 retary, the Director shall perform the following functions:

15 “(1) Provide support for the development of
16 angel investment opportunities for small business
17 concerns.

18 “(2) Administer the Angel Finance Program
19 under section 381 of this Act.

20 “(3) Administer the Federal Angel Network
21 under section 382 of this Act.

22 “(4) Administer the grant program for the de-
23 velopment of angel groups under section 383 of this
24 Act.

25 “(5) Perform such other duties consistent with
26 this section as the Administrator shall prescribe.

1 **“SEC. 381. ANGEL FINANCE PROGRAM.**

2 “(a) IN GENERAL.—The Director of Angel Invest-
3 ment shall establish and carry out a program, to be known
4 as the Angel Finance Program, to provide financing to
5 approved angel groups.

6 “(b) ELIGIBILITY.—To be eligible to receive financ-
7 ing under this section, an angel group shall—

8 “(1) have demonstrated experience making in-
9 vestments in local or regional small business con-
10 cerns;

11 “(2) have established protocols and a due dili-
12 gence process for determining its investment strat-
13 egy;

14 “(3) have an established code of ethics; and

15 “(4) submit an application to the Director of
16 Angel Investment at such time and containing such
17 information and assurances as the Director may re-
18 quire.

19 “(c) USE OF FUNDS.—An angel group that receives
20 financing under this section shall use the amounts received
21 to make investments in small business concerns—

22 “(1) that have been in existence for less than
23 5 years as of the date on which the investment is
24 made;

25 “(2) that have fewer than 75 employees as of
26 the date on which the investment is made; and

1 “(3) more than 50 percent of the employees of
2 which perform substantially all of their services in
3 the United States as of the date on which the invest-
4 ment is made.

5 “(d) LIMITATION ON AMOUNT.—No angel group re-
6 ceiving financing under this section shall receive more
7 than \$2,000,000.

8 “(e) PRIORITY IN PROVIDING FINANCING.—In pro-
9 viding financing under this section, the Director shall give
10 priority to angel groups that invest in small business con-
11 cerns owned and controlled by veterans, small business
12 concerns owned and controlled by women, and socially and
13 economically disadvantaged small business concerns.

14 “(f) GEOGRAPHIC DISTRIBUTION OF FINANCING.—
15 In providing financing under this section, the Director
16 shall, to the extent practicable, provide financing to angel
17 groups that are located in a variety of geographic areas.

18 “(g) MATCHING REQUIREMENT.—As a condition of
19 receiving financing under this section, the Director shall
20 require that for each small business concern in which the
21 angel group receiving such financing invests, the angel
22 group shall invest an amount that is equal to or greater
23 than the amount of financing received under this section
24 from a source other than the Federal Government that
25 is equal to the amount of the financing provided under

1 this section that the angel group invests in that small busi-
2 ness concern.

3 “(h) REPAYMENT OF FINANCING.—As a condition of
4 receiving financing under this section, the Director shall
5 require an angel group to repay the Director for any in-
6 vestment on which the angel group makes a profit an
7 amount equal to the percentage of the profit that is equal
8 to the percentage of the total amount invested by the angel
9 group that consisted of financing received under this sec-
10 tion.

11 “(i) ANGEL INVESTMENT FUND.—

12 “(1) ESTABLISHMENT.—There is in the Treas-
13 ury a fund to be known as the Angel Investment
14 Fund.

15 “(2) DEPOSIT OF CERTAIN AMOUNTS.—
16 Amounts collected under subsection (h) shall be de-
17 posited in the fund.

18 “(3) USE OF DEPOSITS.—Deposits in the fund
19 shall be available for the purpose of providing fi-
20 nancing under this section in the amounts specified
21 in annual appropriation laws without regard to fiscal
22 year limitations.

23 “(j) DEFINITIONS.—In this section:

24 “(1) The term ‘small business concern owned
25 and controlled by veterans’ has the meaning given

1 that term under section 3(q)(3) of the Small Busi-
 2 ness Act (15 U.S.C. 632(q)(3)).

3 “(2) The term ‘small business concern owned
 4 and controlled by women’ has the meaning given
 5 that term under section 8(d)(3)(D) of such Act (15
 6 U.S.C. 637(d)(3)(D)).

7 “(3) The term ‘socially and economically dis-
 8 advantaged small business concern’ has the meaning
 9 given that term under section 8(a)(4)(A) of such Act
 10 (15 U.S.C. 637(a)(4)(A)).

11 “(k) AUTHORIZATION OF APPROPRIATIONS.—There
 12 is authorized to be appropriated to carry out this section—

13 “(1) \$25,000,000 for fiscal year 2007;

14 “(2) \$50,000,000 for fiscal year 2008; and

15 “(3) \$75,000,000 for fiscal year 2009.

16 **“SEC. 382. FEDERAL ANGEL NETWORK.**

17 “(a) IN GENERAL.—Subject to the succeeding provi-
 18 sions of this subsection, the Director of the Office of Angel
 19 Investment shall establish and maintain a searchable data-
 20 base, to be known as the Federal Angel Network, to assist
 21 small business concerns in identifying angel investors.

22 “(b) NETWORK CONTENTS.—The Federal Angel Net-
 23 work shall include—

24 “(1) a list of the names and addresses of angel
 25 groups and angel investors;

1 “(2) information about the types of investments
2 each angel group or angel investor has made; and

3 “(3) information about other public and private
4 resources and registries that provide information
5 about angel groups or angel investors.

6 “(c) COLLECTION OF INFORMATION.—

7 “(1) IN GENERAL.—The Director shall collect
8 the information to be contained in the Federal Angel
9 Network and shall ensure that such information is
10 updated regularly.

11 “(2) REQUEST FOR EXCLUSION OF INFORMA-
12 TION.—The Director shall not include such informa-
13 tion concerning an angel investor if that investor
14 contacts the Director to request that such informa-
15 tion be excluded from the Network.

16 “(d) AVAILABILITY.—The Director shall make the
17 Federal Angel Network available on the Internet website
18 of the Administration.

19 “(e) AUTHORIZATION OF APPROPRIATIONS.—There
20 is authorized to be appropriated to carry out this section
21 \$1,000,000, to remain available until expended.

22 **“SEC. 383. GRANT PROGRAM FOR DEVELOPMENT OF ANGEL**
23 **GROUPS.**

24 “(a) IN GENERAL.—The Director of the Office of
25 Angel Investment shall establish and carry out a grant

1 program to make grants to eligible entities for the develop-
2 ment of new or existing angel groups and to increase
3 awareness and education about angel investing.

4 “(b) ELIGIBLE ENTITIES.—In this section, the term
5 ‘eligible entity’ means—

6 “(1) a State or unit of local government;

7 “(2) a nonprofit organization;

8 “(3) a state mutual benefit corporation;

9 “(4) a Small Business Development Center es-
10 tablished pursuant to section 21 of the Small Busi-
11 ness Act (15 U.S.C. 648); or

12 “(5) a women’s business center established pur-
13 suant to section 29 of the Small Business Act (15
14 U.S.C. 656).

15 “(c) APPLICATION.—To receive a grant under this
16 section, an eligible entity shall submit an application that
17 contains—

18 “(1) a proposal describing how the grant would
19 be used; and

20 “(2) any other information or assurances as the
21 Director may require.

22 “(d) REPORT.—Not later than 3 years after the date
23 on which an eligible entity receives a grant under this sec-
24 tion, such eligible entity shall submit a report to the Ad-
25 ministrator describing the use of grant funds and evalu-

1 ating the success of the angel group developed using the
2 grant funds.

3 “(e) AUTHORIZATION OF APPROPRIATIONS.—There
4 is authorized to be appropriated to carry out this section
5 \$1,500,000, for each of fiscal years 2007 through 2009.

6 **“SEC. 384. DEFINITIONS.**

7 “In this part:

8 “(a) The term ‘angel group’ means two or more angel
9 investors organized for the purpose of making investments
10 in local or regional small business concerns that—

11 “(1) consists primarily of angel investors;

12 “(2) requires angel investors to be accredited
13 investors; and

14 “(3) actively involves the angel investors in
15 evaluating and making decisions about making in-
16 vestments.

17 “(b) The term ‘angel investor’ means an individual
18 who—

19 “(1) on the basis of such factors as financial
20 sophistication, income, net worth, knowledge, and
21 experience in financial matters, or amount of assets
22 under management, qualifies as an accredited inves-
23 tor under rules and regulations prescribed by the
24 Commissioner of the Securities and Exchange Com-
25 mission; and

1 “(2) provides capital to or makes investments
2 in a small business concern.”.

3 **SEC. 3. TAX CREDIT FOR SMALL BUSINESS INVESTMENT.**

4 (a) IN GENERAL.—Subpart A of part IV of sub-
5 chapter A of chapter 1 of the Internal Revenue Code of
6 1986 (relating to nonrefundable personal credits) is
7 amended by inserting after section 25D the following new
8 section:

9 **“SEC. 25E. SMALL BUSINESS INVESTMENT.**

10 “(a) IN GENERAL.—In the case of an individual,
11 there shall be allowed as a credit against the tax imposed
12 by this chapter an amount equal to 20 percent of the
13 amount paid or incurred for qualified small business in-
14 vestments during the taxable year.

15 “(b) LIMITATION.—With respect to any qualified
16 small business investment in any corporation or partner-
17 ship, the amount paid or incurred by any taxpayer which
18 is taken into account under subsection (a) shall not exceed
19 \$250,000 (\$500,000 in the case of a joint return), reduced
20 by the amount taken into account under such subsection
21 with respect to investments by the taxpayer in such cor-
22 poration or partnership for all prior taxable years.

23 “(c) QUALIFIED SMALL BUSINESS INVESTMENT.—
24 For purposes of this section—

1 “(1) IN GENERAL.—The term ‘qualified small
2 business investment’ means any small business stock
3 and any small business partnership interest.

4 “(2) SMALL BUSINESS STOCK.—The term
5 ‘small business stock’ means any stock in a domestic
6 corporation acquired by the taxpayer at its original
7 issue (directly or through an underwriter) solely in
8 exchange for cash, if—

9 “(A) such corporation is an eligible small
10 business (as defined in section 41(b)(3)(D)(ii)),

11 “(B) such corporation is engaged primarily
12 in the trade or business of manufacturing, proc-
13 essing, assembling, or researching and devel-
14 oping products or in the trade or business of
15 agriculture, technology, or life science,

16 “(C) such corporation has been in exist-
17 ence for less than 5 years as of such acquisi-
18 tion,

19 “(D) such corporation has fewer than 75
20 employees as of such acquisition,

21 “(E) more than 50 percent of the corpora-
22 tion’s employees perform substantially all of
23 their services in the United States as of such
24 acquisition, and

1 “(F) such stock is designated by the cor-
2 poration for purposes of this paragraph.

3 For purposes of subparagraph (E), stock shall not
4 be treated as designated if such designation would
5 result in the aggregate amount which may be taken
6 into account under this section with respect to stock
7 issued by such corporation to exceed \$750,000, tak-
8 ing into account all taxpayers for all taxable years.

9 “(3) SMALL BUSINESS PARTNERSHIP INTER-
10 EST.—The term ‘small business partnership interest’
11 means any capital or profits interest in a domestic
12 partnership acquired by the taxpayer from the part-
13 nership solely in exchange for cash, if—

14 “(A) such partnership is an eligible small
15 business (as defined in section 41(b)(3)(D)(ii)),

16 “(B) such partnership is engaged primarily
17 in the trade or business of manufacturing, proc-
18 essing, assembling, or researching and devel-
19 oping products or in the trade or business of
20 agriculture, technology, or life science,

21 “(C) such partnership has been in exist-
22 ence for less than 5 years as of such acquisi-
23 tion,

24 “(D) such partnership has fewer than 75
25 employees as of such acquisition,

1 “(E) more than 50 percent of the partner-
2 ship’s employees perform substantially all of
3 their services in the United States as of such
4 acquisition, and

5 “(F) such capital or profits interest is des-
6 ignated by partnership for purposes of this
7 paragraph.

8 For purposes of subparagraph (E), a capital or prof-
9 its interest shall not be treated as designated if such
10 designation would result in the aggregate amount
11 which may be taken into account under this section
12 with respect to interests in such partnership to ex-
13 ceed \$750,000, taking into account all taxpayers for
14 all taxable years.

15 “(d) CARRYFORWARD OF UNUSED CREDIT.—If the
16 credit allowable under subsection (a) exceeds the limita-
17 tion imposed by section 26(a) for such taxable year re-
18 duced by the sum of the credits allowable under this sub-
19 part (other than this section), such excess shall be carried
20 to the succeeding taxable year and added to the credit al-
21 lowable under this section. Such excess shall not be taken
22 into account under this subsection for such succeeding
23 taxable year or any taxable year succeeding such year.”.

1 (b) CLERICAL AMENDMENT.—The table of sections
2 of such subpart is amended by inserting after the item
3 relating to section 25D the following new item:

“Sec. 25E. Small business investment.”.

4 (c) REPORT TO CONGRESS.—The Secretary of the
5 Treasury shall conduct a study and report to Congress on
6 the effectiveness of the credit allowed under section 25E
7 of the Internal Revenue Code of 1986 (as added by this
8 section), and similar State tax credits, in providing incen-
9 tives for investment in qualified small businesses. There
10 are authorized to be appropriated \$500,000 to carry out
11 the purposes of this subsection.

12 (d) EFFECTIVE DATE.—The amendments made by
13 this section shall apply to taxable years beginning after
14 the date of the enactment of this Act.

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