

Angel Tax Credits: What Makes Good Policy?

Barbara Boxer

Krista Tuomi

Mike Eckert

What defines 'good' policy?

- *long-term focus/ resistant to changes in political landscape* → allows planning
- *transparent and uncomplicated* → otherwise becomes prohibitive and rewards established groups at the expense of smaller start ups
- *effective scale* → generous enough to stimulate investment but not so generous as to eliminate all investment risk

- *minimum bureaucracy and restrictions*
 - restricted to accredited arms length investors
 - allowed for equity/near equity for a sufficient period of time
 - credits should be transferable and/or able to be carried forward

- *measurable*
 - very difficult (hard to specify the percentage attributable to the government support itself)
 - direct benefits: income and sales tax revenue from successful projects
 - indirect benefits: supplier tax revenue and revenue from consumer spending by employees
 - social benefits: increased employment, growth in technology intensive firms

State of the States

- *States with incentives:*

Arizona, Arkansas, Connecticut, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Missouri, Nebraska, New Jersey, New Mexico, New York, North Dakota, Ohio, Oregon, Rhode Island, South Carolina, Utah, Vermont, Virginia, Wisconsin, West Virginia

- *States with Expired Programs:*
Colorado, Hawaii, Michigan, Minnesota, North Carolina, Oklahoma
- *States with proposed programs:*
Delaware, Massachusetts, Mississippi
- *States with no income tax/ program:*
Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington
- *States with income tax and no program:*
Alabama, California, Idaho, Montana, Pennsylvania, Wyoming

Questions to Consider

- Which provisions are absolutely vital to prevent abuse?
- What is the cost of monitoring/ ensuring compliance?
- Which provisions are unnecessary/ restrictive?
- Political vs. economic reality: are restrictions on headquarters, employees etc necessary if the benefits to the state still outweigh the costs?
- What are other environmental factors are necessary for an incentive to “work”?

→ Unfortunately few states have the data to answer these

Federal Angel Investor Tax Credit Bill

- Sen. Christopher Murphy (D-CT) is drafting a bill to create a federal tax credit for angel investments
- Bill is in draft form and his office is locating co-sponsors
- ACA's Public Policy Team is in a dialogue with Senator Murphy's re the language in the draft bill

- Bill is based on the **Connecticut state tax credit**
- **Overall Program**
 - 25% credit on investment up to \$250,000 per year per investor
 - Total credits per year of \$500M across country

- **Investor Requirements**

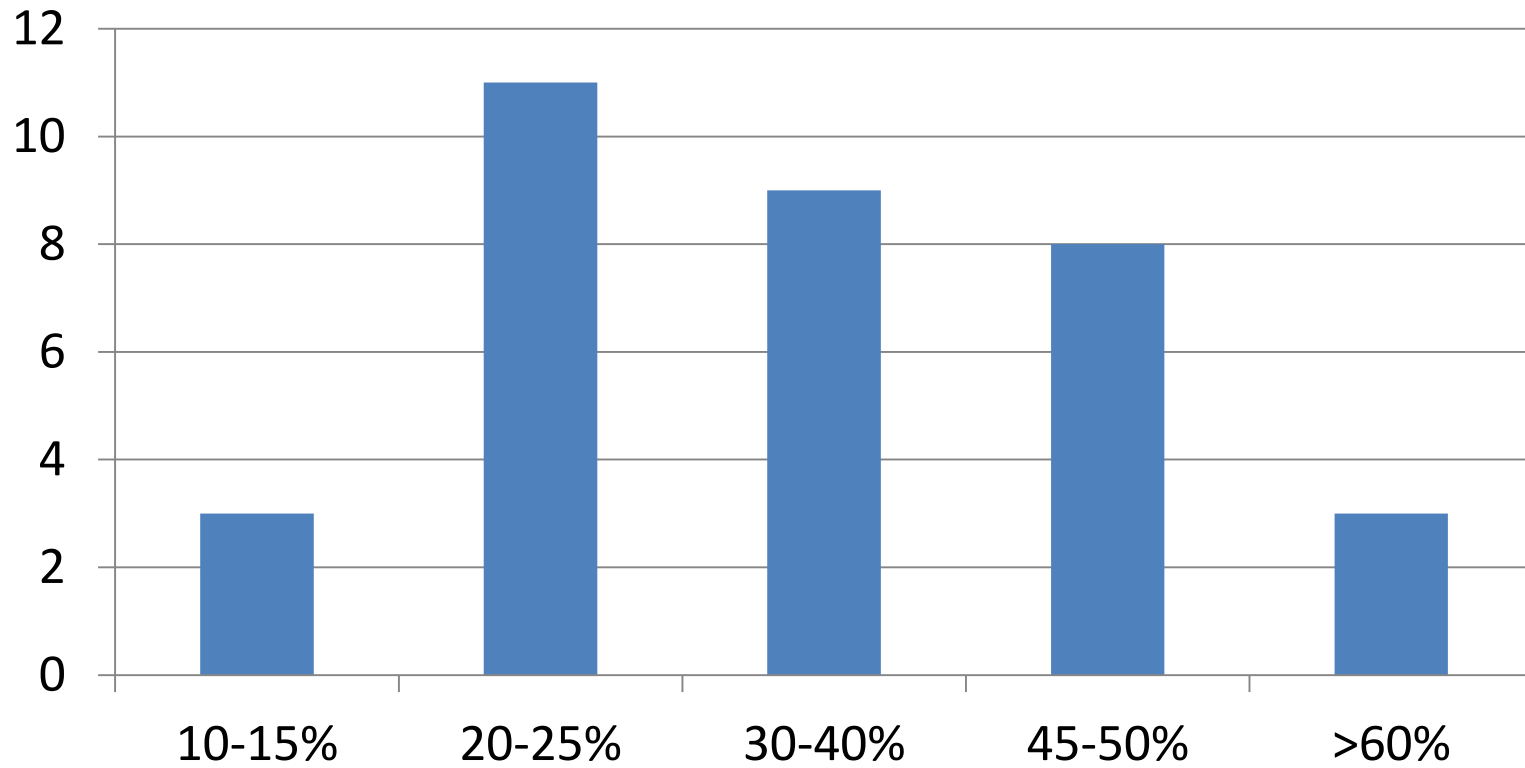
- Investor must invest \$25,000 minimum and \$2M maximum in company to qualify
- 3 year holding period

- **Company Qualifications**

- < 7 years old
- < 25 employees
- < \$1M in revenues

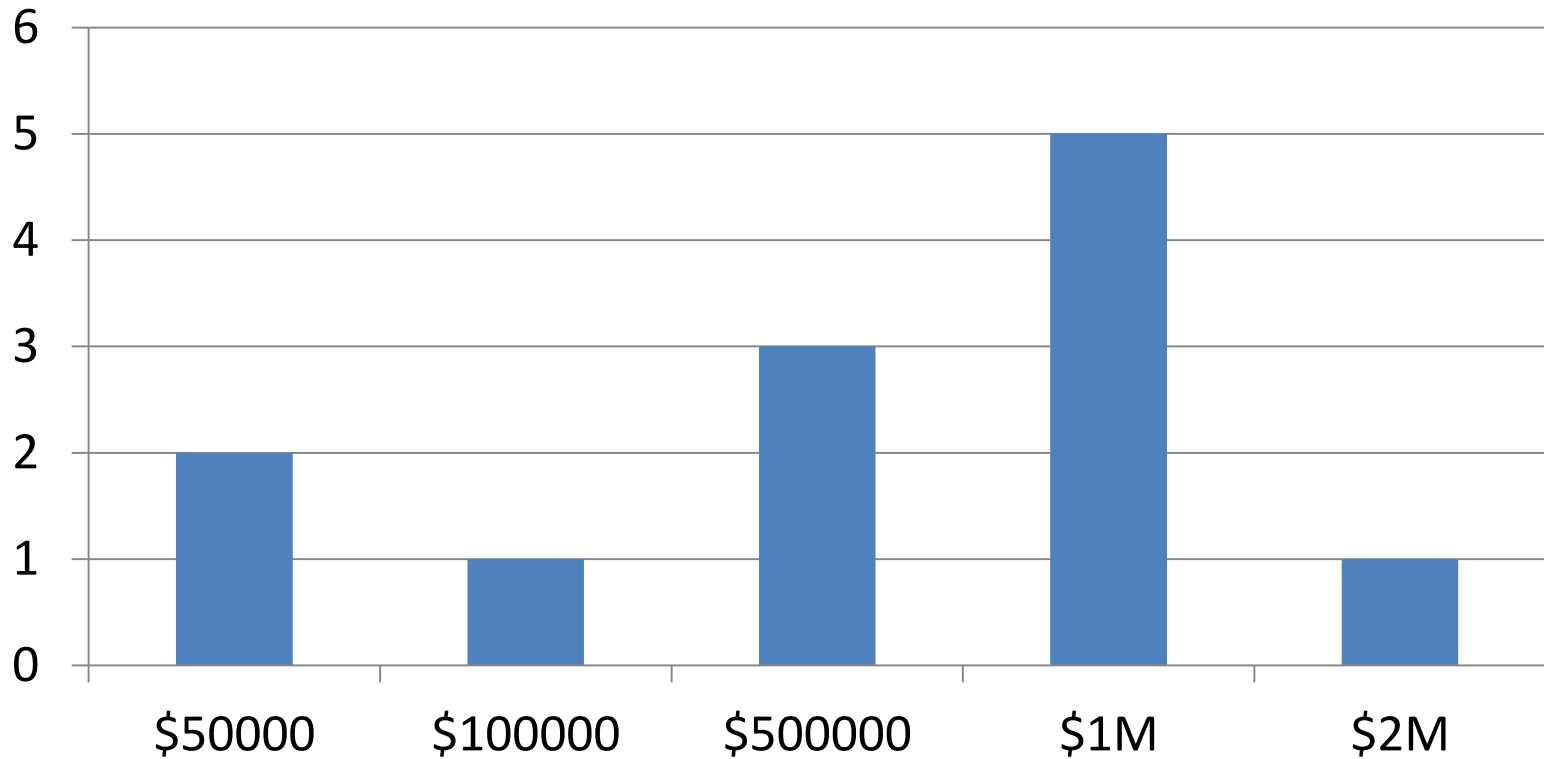
State Data

Credit Percentage



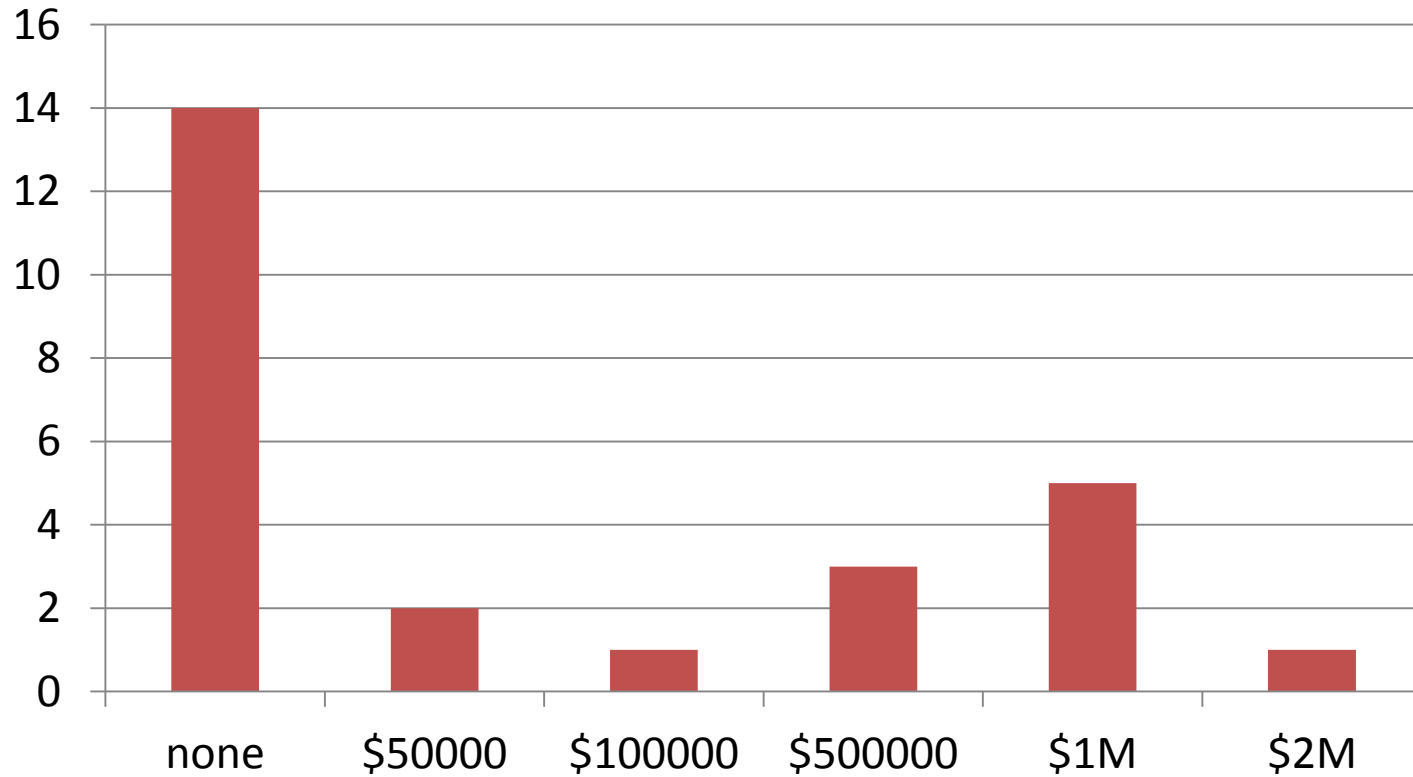
(Federal Bill: 25%)

Maximum Credit Allowed per Business



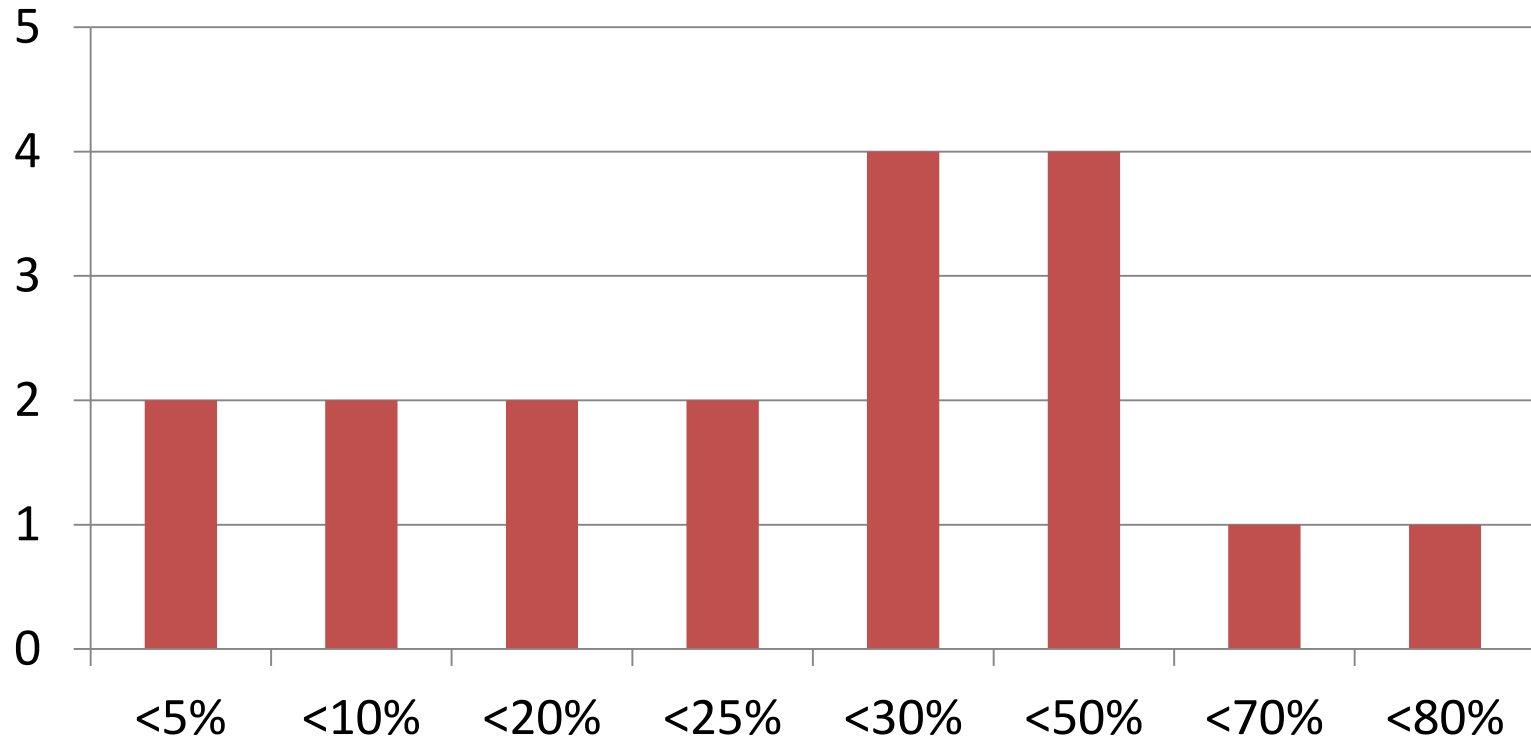
(Federal Bill: \$2M)

Minimum Investment Required



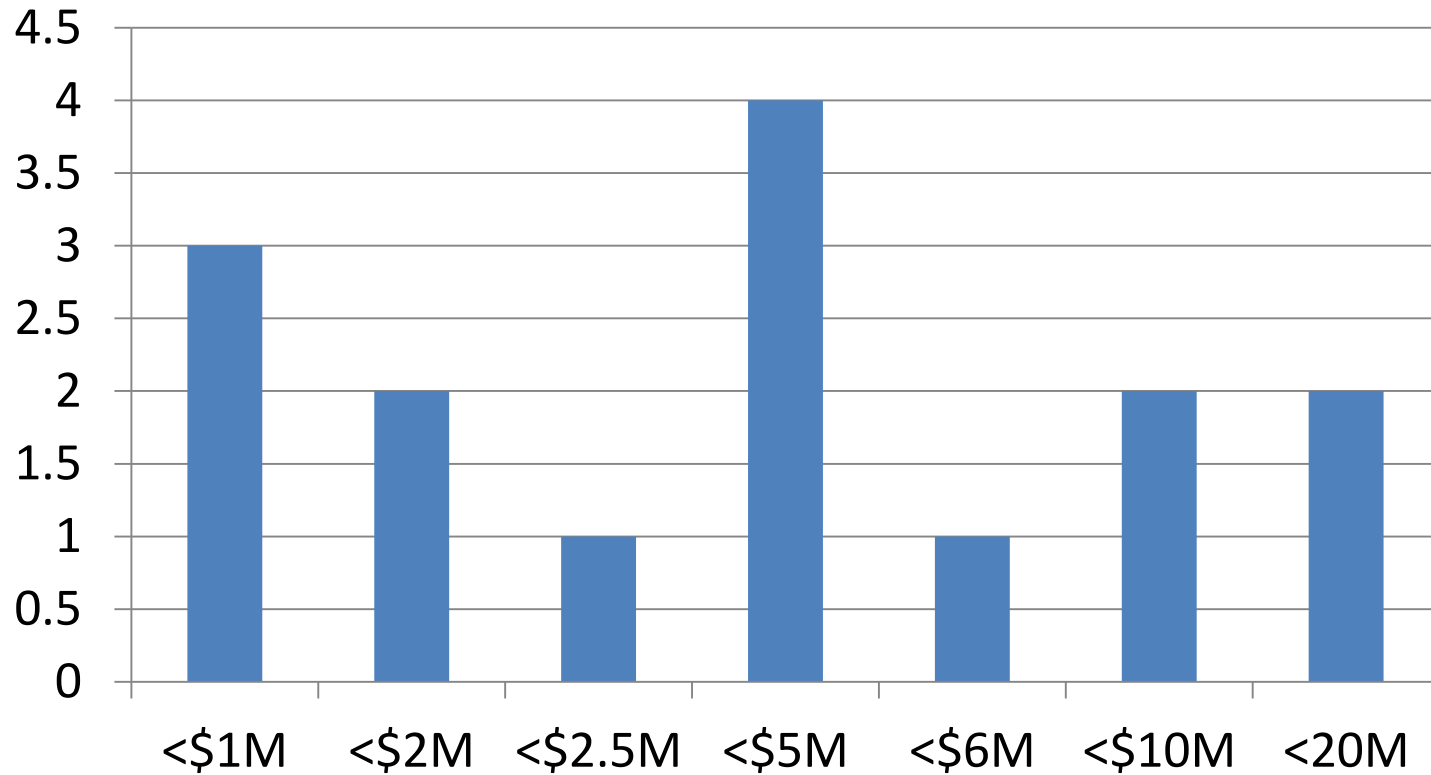
(Federal Bill: \$25000)

Ownership/ Equity Restrictions on Investor/Investor Group



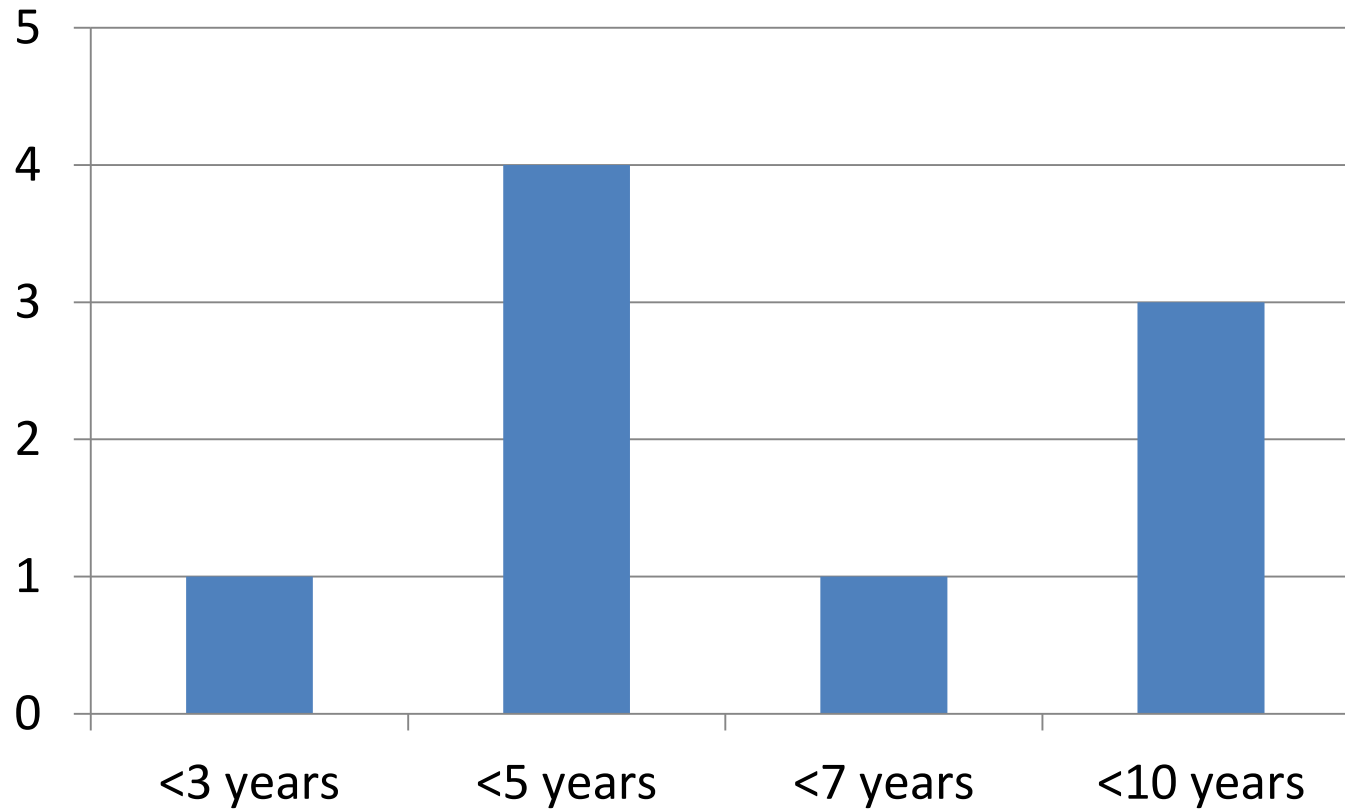
(Federal Bill: <50%)

Allowable Gross Revenue of Business at time of Investment



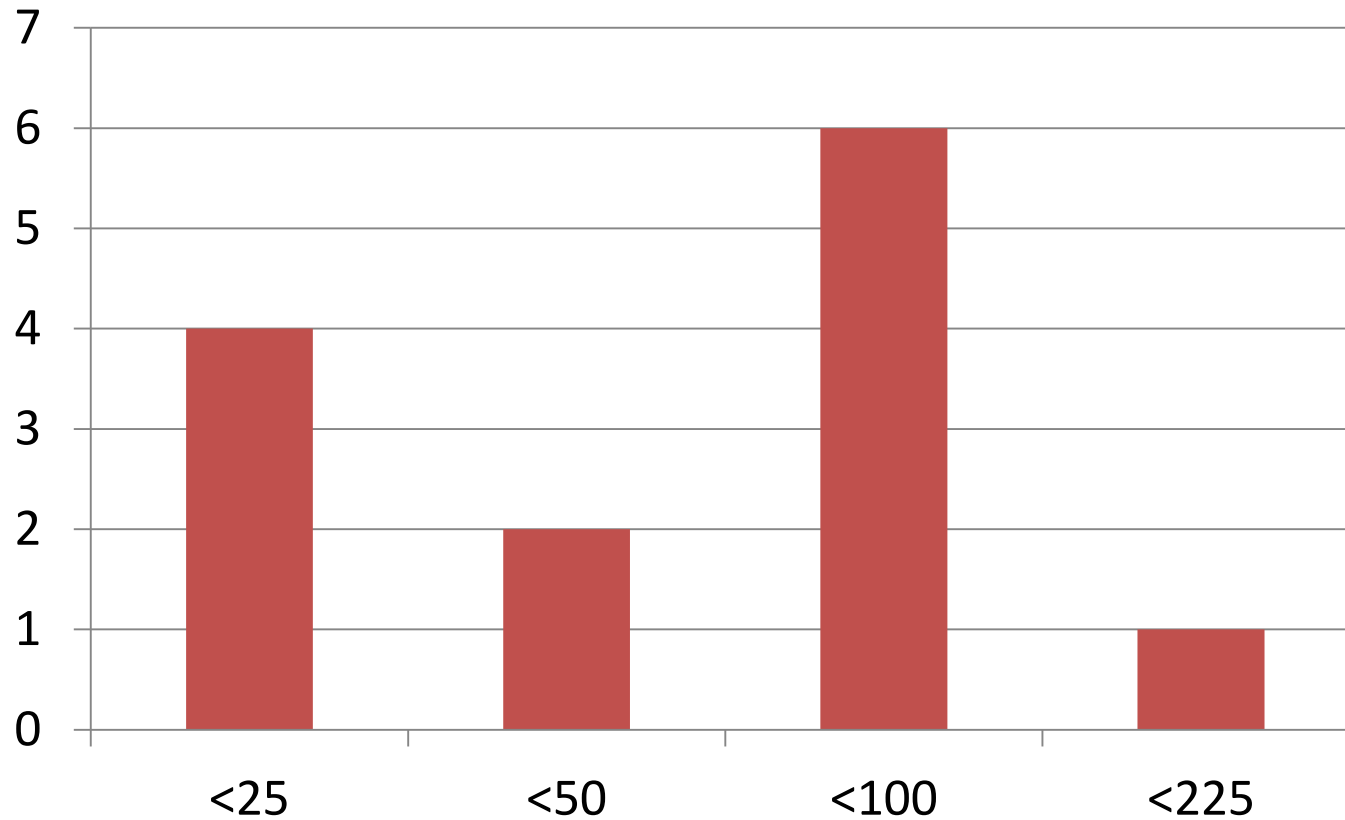
(Federal Bill: <\$1M)

Restriction on Business Age at the Time of the Investment



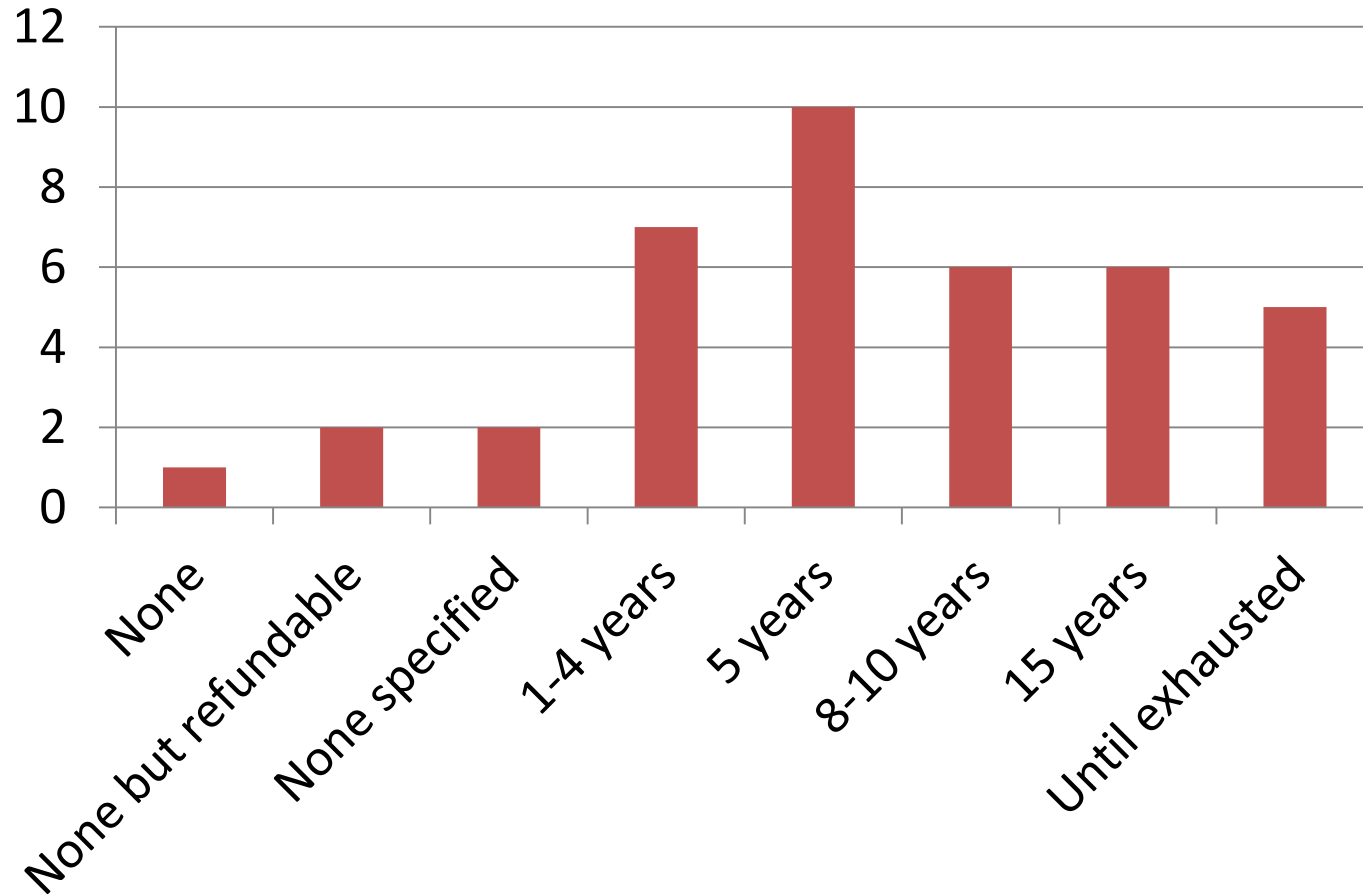
(Federal Bill: <7 years)

Restriction on Number of Employees at the Time of the Investment



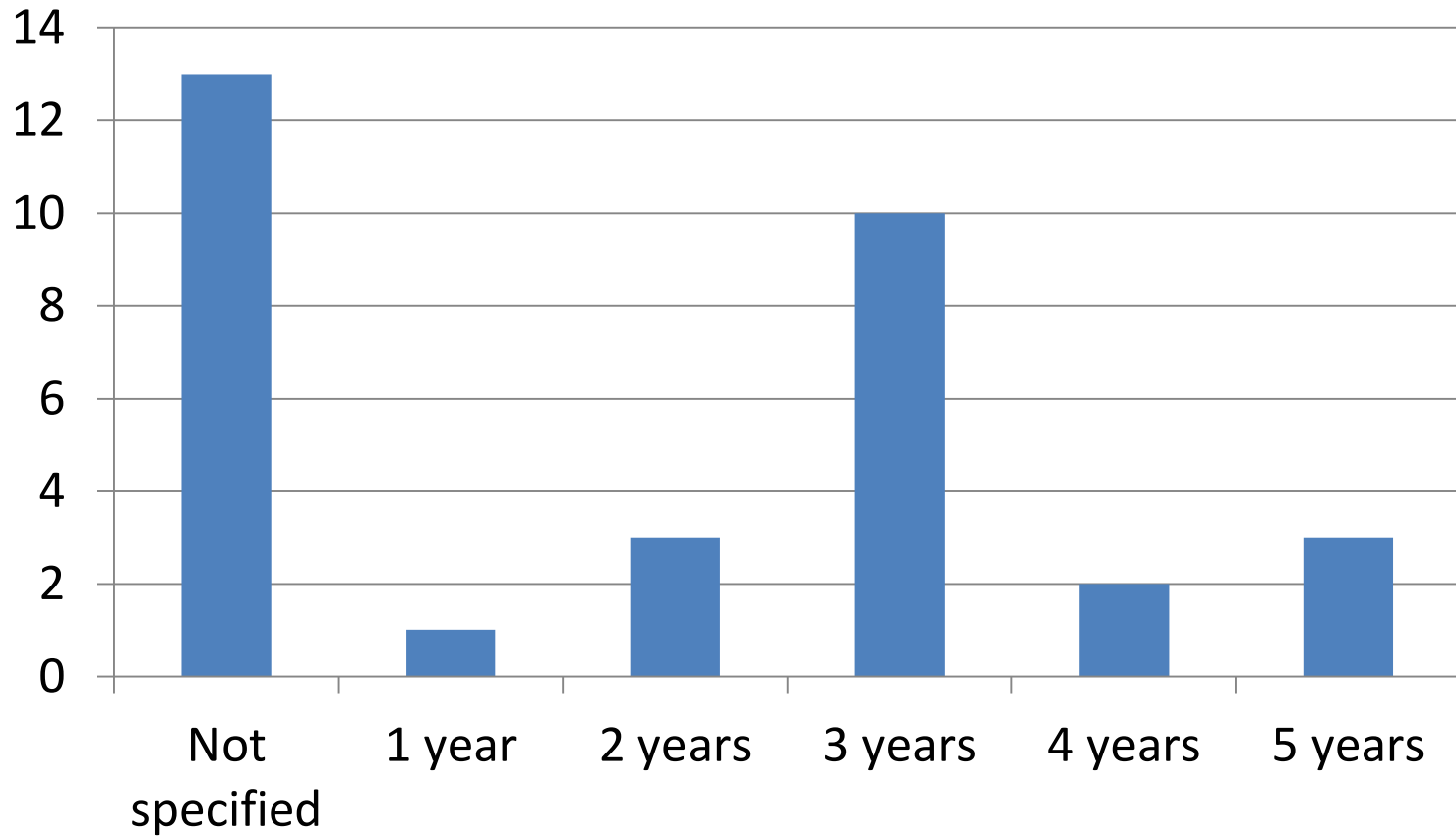
(Federal Bill: <25)

Ability to carry over unclaimed credits to following years



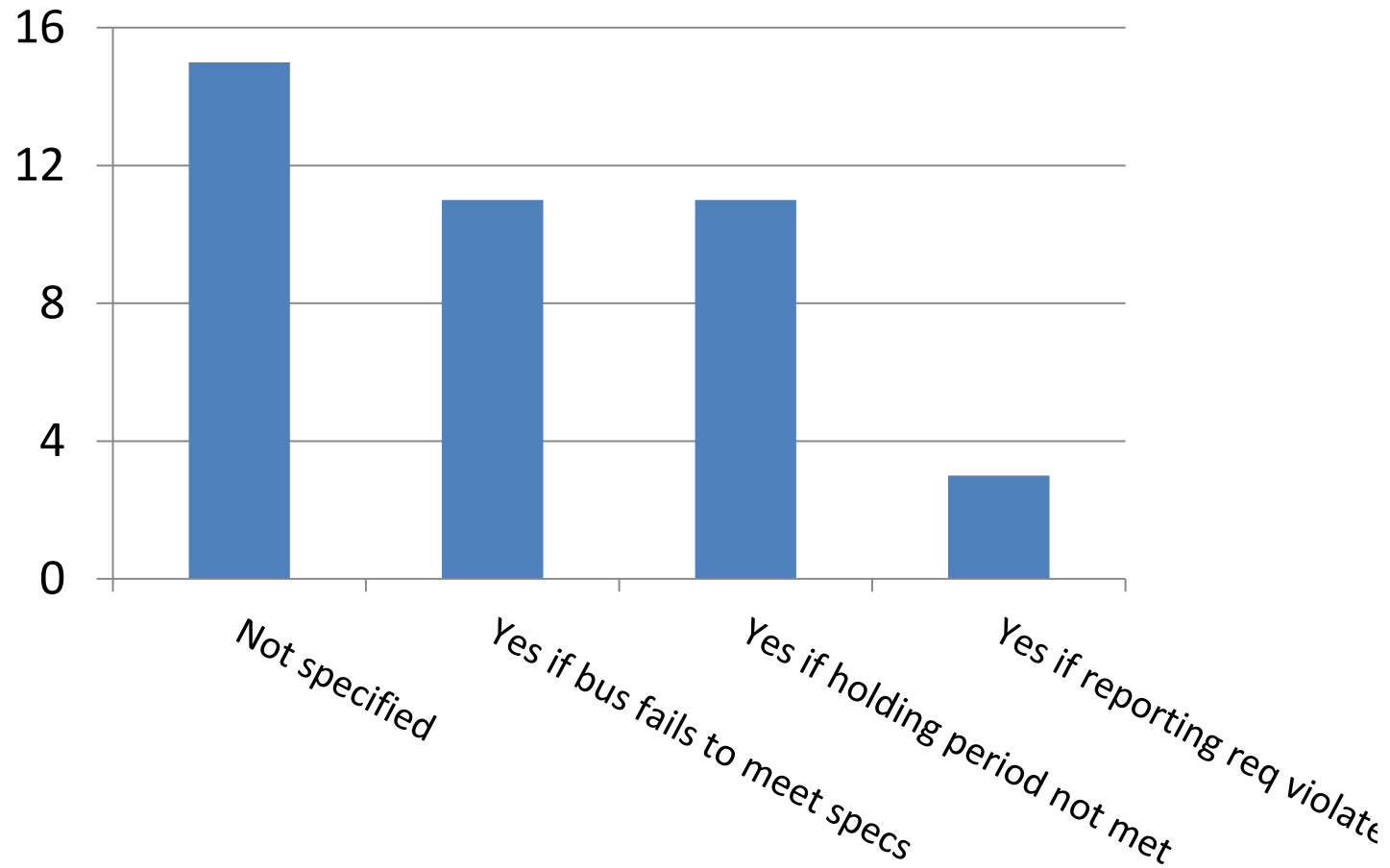
(Federal Bill: Until exhausted up till 2022)

Holding Period that Investors have to hold shares in order to claim credit



(Federal Bill: 3 years)

Can credit be recaptured if requirements are not fulfilled?



(Federal Bill: Yes if holding period not met)

CALL TO ACTION

- verify data on different state credits
- provide contact information for the state agency where data is collected/administered
→ sign up sheet in front