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:**

• **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
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