

Venture Capital – Qualifying Business (Angel Investor) Tax Credit

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Outline of Remarks

- ▶ Program Description and Brief History
- ▶ Angel Investor Tax Credits in Other States
- ▶ Tax Credit Awards and Claims
- ▶ Economic Analysis

Program Description

- ▶ Iowa Code Chapter 15E
- ▶ 25% of the equity investment in a qualified business approved by EDA
- ▶ Limits
 - Annual program cap \$2 million
 - \$100K per investor
 - \$500K per qualified business
- ▶ Not transferrable
- ▶ Claims against individual income tax are refundable
- ▶ Three-year carryforward for other tax types

Brief History

- Investments made in 2002 first qualified for the tax credit
- Original program cap was \$10 million, met in 2007
- No awards made in 2008 through 2010
- Since 2011, capped at \$2 million per year
- Since 2015
 - No three-year waiting period
 - Not allowed for community-based seed capital funds
 - New limits per investor and per qualifying business
 - Tax credit rate increased from 20% to 25%
- Total tax credits since 2002: \$20.1 Million

Angel Investor Tax Credits In Other States

- ▶ There are currently 23 states that have equity investment tax credits
- ▶ Credits rates vary
 - 20% in 5 states
 - 25% or more in 18 states (including Iowa)
 - 50% in 4 states (KS, ME, MD, VA)
- ▶ Annual program caps vary
 - \$750K in Colorado – \$30M in Wisconsin
 - At least \$2.5M in 19 states
 - At least \$10M in 9 states

Qualifying Businesses Investments

Year of Investment	Businesses Receiving Investments	New Businesses Receiving Investments	Amount of Investment	Tax Credits
2011	8	8	\$3,386,000	\$502,000
2012	6	3	\$3,417,000	\$683,000
2013	5	2	\$1,317,000	\$263,000
2014	7	3	\$4,059,000	\$652,000
2015	4	3	\$2,873,000	\$699,000
2016	9	5	\$11,966,000	\$2,361,000
2017	13	6	\$9,708,000	\$2,309,000
2018	12	5	\$14,679,000	\$2,432,000
2011-2018	64	35	\$51,405,000	\$9,901,000

Source: Iowa Department of Revenue



Community-Based Seed Capital Fund Investments

Investment Year	Funds Receiving Investments	New Funds Receiving Investments	Amount of Investments	Tax Credits
2011	0	0	\$0	\$0
2012	1	1	\$376,000	\$75,000
2013	1	0	\$519,000	\$104,000
2014	1	0	\$51,000	\$10,000
2015	0	0	\$0	\$0
2016	0	0	\$0	\$0
2017	0	0	\$0	\$0
2018	0	0	\$0	\$0
2011-2018	3	1	\$946,000	\$189,000

Source: Iowa Department of Revenue

Tax Credit Awards by Iowa Resident Status

Investment Year	Number of Investors	Amount of Investments	Tax Credits	Number of Investors	Amount of Investments	Tax Credits
2011	102	\$2,991,000	\$423,000	21	\$395,000	\$79,000
2012	134	\$3,290,000	\$658,000	14	\$504,000	\$101,000
2013	52	\$1,322,000	\$264,000	10	\$514,000	\$103,000
2014	64	\$4,098,000	\$660,000	*	*	*
2015	36	\$1,041,000	\$241,000	16	\$1,832,000	\$458,000
2016	128	\$8,336,000	\$1,749,000	43	\$3,630,000	\$613,000
2017	175	\$7,299,000	\$1,707,000	67	\$2,409,000	\$602,000
2018	117	\$13,370,000	\$2,105,000	32	\$1,309,000	\$327,000
2011-2018	808	\$41,747,000	\$7,807,000	203	\$10,593,000	\$2,283,000

Source: Iowa Department of Revenue

Tax Credit Claims

Tax Year	Number of Claims	Amount of Claims	Average Claim
2011	380	\$510,652	\$1,344
2012	133	\$268,202	\$2,017
2013	80	\$173,344	\$2,167
2014	92	\$271,254	\$2,948
2015	357	\$1,355,764	\$3,798
2016*	476	\$2,121,160	\$4,456
2017*	294	\$1,593,706	\$5,421
2018*	123	\$895,328	\$7,279
2011-2018	1,935	\$7,189,410	\$3,715

* Review of tax credit claims for tax years 2016 through 2018 is not final.

Source: Iowa Department of Revenue

Price Elasticity of Demand

- ▶ Investment Demand is Price Elastic
 - Investors invest less when capital costs more
 - Investors invest more when capital costs less
- ▶ Because the tax credit lowers the cost of investment, in principle, it encourages investment

Internal Rate of Return

Without Tax Credit

Year	0	1	2	3	4	5	IRR
Cash Flow	-\$400,000	\$0	\$0	\$0	\$0	\$800,000	14.9%

With Tax Credit

Year	0	1	2	3	4	5	IRR
Cash Flow	-\$300,000	\$0	\$0	\$0	\$0	\$800,000	21.7%

Economic Analysis

- ▶ Does the Angel Investor Tax Credit incentivize investment?
 - Impossible to evaluate using experimental methods
 - However, can provide evidence on whether different levels of overall investment can be explained in part by whether businesses have received tax credit-qualified investment

Economic Analysis

- ▶ Data source: Crunchbase
 - a propriety data source with a focus on capital investment in start-ups
- ▶ Amount of investment funding for qualified businesses and comparison businesses
Comparison businesses identified by
 - Year of Founding
 - Industry Category Group
 - Number of Employees

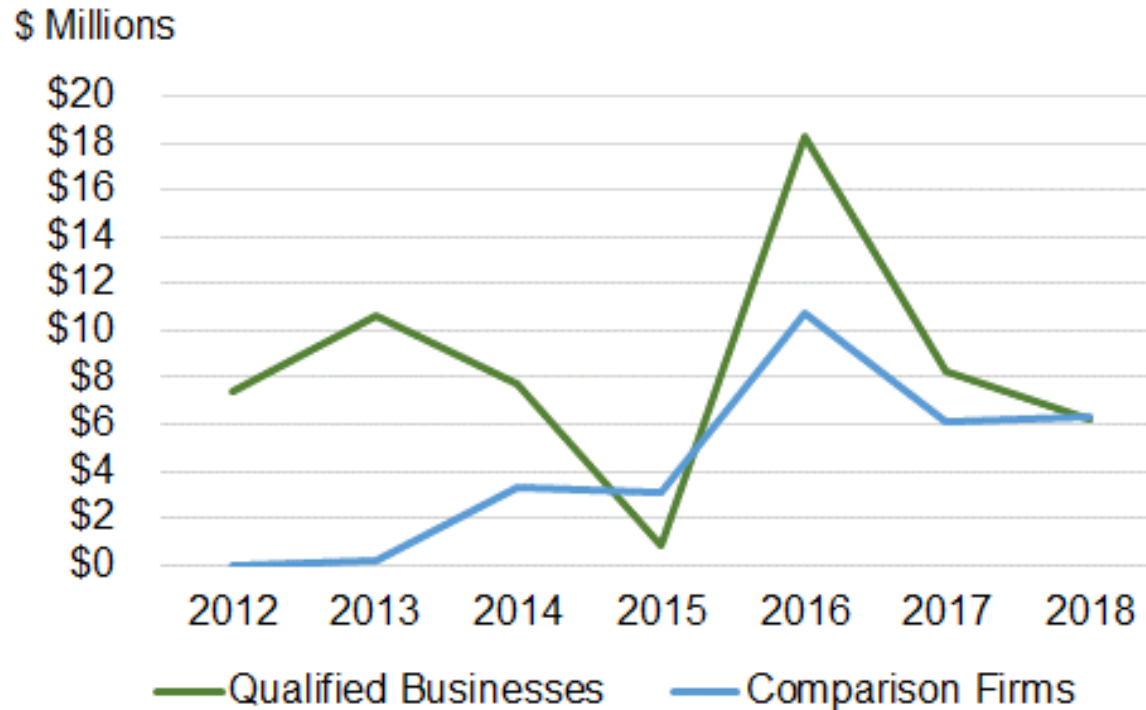
Overview of Angel/Seed and Venture Funding in Iowa and Seven Regional States

State	Number of Firms in Data File	Number of Firms Receiving Funding	Total Angel/Seed or Venture Funding 2009-2018 (\$ Millions)
Illinois	2,566	868	\$5,351.90
Minnesota	523	230	\$1,473.14
Missouri	498	224	\$767.72
Wisconsin	398	205	\$661.04
Kansas	182	56	\$265.68
Iowa	260	107	\$247.38
Nebraska	133	68	\$93.31
South Dakota	35	14	\$64.34
TOTAL	4,595	1,772	\$8,924.51

Source: Crunchbase, 2019

Angel/Seed & Venture Funding By Year

Qualified Businesses and Comparison Firms



Source: Crunchbase, 2019

Angel/Seed & Venture Funding

Qualified Businesses and Comparison Firms

2010 – 2018

Firm Category	Firms in the Data File Receiving Funding		Angel/Seed & Venture Funding	
	Number	Percent	Amount	Percent
Qualified Businesses	20	18.7%	\$64,070,000	25.3%
Comparison Businesses in Iowa	20	18.7%	\$29,740,000	11.7%
All Other Iowa Businesses	67	62.6%	\$159,700,000	63.0%
TOTAL	107	100.0%	\$253,500,000	100.0%

Source: Crunchbase, 2019



Questions?