

WASHINGTON D.C. INSIGHTS

ISSUES THAT IMPACT YOUR PORTFOLIO

Presentation to the
Michigan Angel Summit

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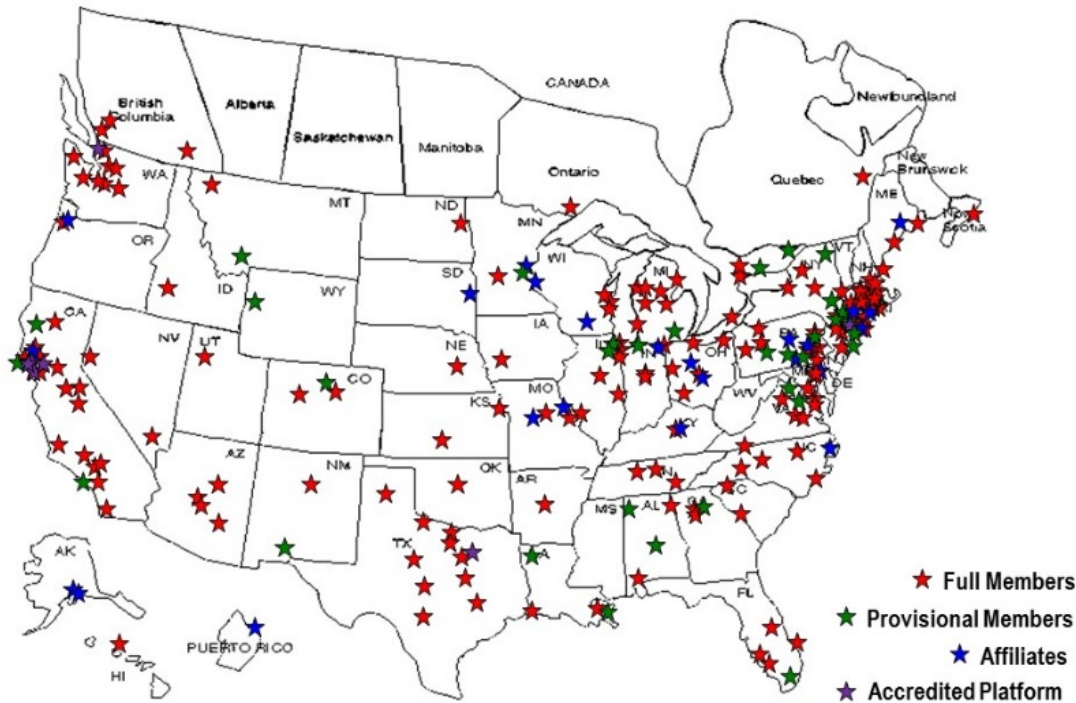
TOPICS IN MY PRESENTATION

- Angels in the USA
- Key Federal Public Policy Accomplishments
- What these mean to you as investors and entrepreneurs
- Public Policy Opportunities and Challenges ahead
- State Support for Angels
- How you can make a difference

ANGEL CAPITAL ASSOCIATION TODAY

World's largest association of accredited angel investors

www.angelcapitalassociation.org



- 14,000+ investors
- Angel groups
- Accredited platforms
- Family offices
- Individual angels
- 250+ organizations
- Every U.S. state, 5 Canadian provinces & Mexico

Mission: fuel success of angel groups and accredited investors, as well as the early-stage companies they support



ANGEL CAPITAL ASSOCIATION

COMPANIES BACKED BY AMERICAN ANGELS



ANGELS FUND MAJORITY OF STARTUPS

Angel Investors

- \$24.6 billion
- **71,000 deals**
- **17,750 seed**
- 31,950 early stage
- 19,170 expansion
- 305,000 active individuals

Venture Capital

- \$59.1 billion*
- **4,380 deals**
- **186 seed**
- 2,219 early stage
- 1,975 later/expansion
- 718 active firms

Sources: "ACA Data Analytics Report 2019", Center for Venture Research/ UNH;
NVCA 2019 Yearbook; PwC MoneyTree

*(12 expansion-stage companies accounted for more than \$10 B of this total)

ACA PUBLIC POLICY ACCOMPLISHMENTS

- Accredited Investor Definition codified by SEC **NEW**
- Retained Capital Gain Tax Exemption (Section 1202)
- Preserved investment loss tax write-off (Section 1244)
- Expanded R&D Tax Credits for start-ups
- Revised 99 investor cap to 250 for Angel funds
- ACA seen as key voice in innovation/job creation

ACCREDITED INVESTOR DEFINITION

- Helps angels in states like Michigan and mid-west by retaining \$1 million net worth definition
- Adds recognition of professional credentials such as CFP, MBA, CPA, Reg D investment
- Allows for creation of credential program by organizations like ACA (ACA Angel University)
- Expands angel opportunity to more diverse groups thus increasing access to capital for start-ups

SECTION 1202 CAPITAL GAINS EXEMPTION

- Tax free exemption of 100% of gain up to greater of \$10m or 10x of initial investment
- Must be in QSBS qualified small business stock
- Not subject to AMT
- Company must be a “C” corp (not LLC or partnership)
- Must hold 5 years or more
- Founders/employees also eligible
- Certain businesses excluded

SECTION 1244 TAX WRITE-OFF

- Only if you have losses in your angel portfolio
- Deduct as ordinary loss, rather than capital loss (\$50,000/\$100,000 joint max versus \$3,000 max)
- Must be a QSBS with equity of \$1 million or less at time of investment (“C” or “S” Corp qualify)
- Must be held as equity (not convertible note or SAFE)
- Must engage in active business (not passive)

R & D TAX CREDITS

- Extended to start-ups in 2015
- Must have less than \$5 million gross receipts
- Allow documented R&D expenditures to be offset; software development counts
- What qualifies– wages, contracting, supplies
- Initially against federal taxes due; extended to federal payroll taxes (up to \$250K per yr)
- Angel-backed start-ups typically get \$50,000 per yr
- Non-dilutive, more cash for growth; optimize exits

NEW ISSUE: BENEFICIAL OWNERSHIP BILL

- Anti-money laundering/corporate transparency objective with adverse impact to entities that angels support
- Attempt by big financial institutions to shift reporting burden to start-ups and small businesses
- Requires companies 1-21 employees to periodically report on who owns their stock
- Makes start-ups criminally liable for failure to disclose
- Raises concerns with privacy and cyber-security of angel personal data
- Short deadline— Sept passage and enactment likely
- ACA developed carve-out language for Congressional Conference Committee to consider

2021-2022 POLICY ISSUES

Preserve and enhance Section 1202, 1244, & R&D Tax credit provisions

- Pass amendments to Sec 1202; reduce holding period to 3 yrs; incorporate LLC holding; easier reporting
- Index Section 1244 QSBS losses to raise threshold above \$1 million initial capital investment
- Revise R&D Tax credits to be refundable
- Raise or eliminate \$10m cap on Angel funds
- Protect Demo days – SEC regs or HALOs Act
- Monitor CFIUS and seek carve-out for angel investments
- Create Liquidity market for angel investments– beyond an IPO or acquisition

STATE SUPPORT FOR ANGELS

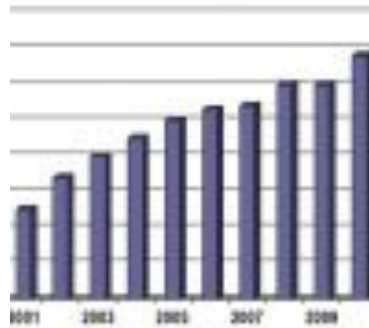
- Tax credits; tax deductions; co-investment funds
- Michigan among 13 states with a state income tax but no angel tax relief (26 states have)
- Evidence that Michigan's 2010 25% income tax credit spurred investment and created jobs– 125 start-ups
- Proposals in Michigan state legislature – see August 26 ACA webinar on gaining passage
- Not about angel investors; about creating jobs; competitive edge; innovation; build tax base

ACA RESOURCES AVAILABLE TO YOU

Via www.angelcapitalassociation.org:



Webinars and Videos



Research, Best Practices



Timely Articles and Blogs



Sign up for Angel Insights Monthly Newsletter for news, new resources

ACA PUBLIC POLICY AGENDA

ISSUES THAT IMPACT YOUR PORTFOLIO

You can help

1. Join ACA Grassroots Team
2. Meet with your Legislators
3. Work on State tax legislation
4. Attend ACA policy-related
“Behind the Scenes”
5. Contact me:
LLSMITH2650@gmail.com



Questions and Thank you

