Reasons for Angel Investment Tax Credits in North Dakota including Transfer or Sale of credits.

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In 1989 North Dakota became the 2nd state in the nation to offer angel capital tax credits (behind Maine in 1987) to provide an incentive for angels to invest in high growth companies that create jobs and wealth. The tax credits were restricted to the long form and not utilized until 2001. The 2003, 2005 and 2007 legislative sessions updated the tax credits to be more usable.

North Dakota became the first state to approve tax credits for pooled angel funds in 2007, encouraging angel investors to form **angel groups** to build investment portfolios in entrepreneur ventures. An angel portfolio is usually 10 ventures or more to spread risk and enhance the opportunity for a positive ROI. In the last three years nine angel funds have been launched, with several others in the formation stage. Four of those funds are affiliated with **RainSource Capital** of St Paul, a network of 23 funds in 6 states led by Steve Mercil, a UND alumnus. The angel funds share deal flow to build strong portfolios and syndicate deals to provide the necessary capitals and follow on funds.

23 states offer angel investment tax credits including ND, WI, IA, CO, KS, OK, MI, AZ, NM, OR, HI, IN, KY, MA, VT, VA, NC, WV, NJ, LA, OH, VT, and in 2010 Minnesota approved a 25% angel tax credit.

Tax credits incentives work well to attract equity for fast growth ventures. From the first year 2005 to 2008, the amount of angel money invested in Wisconsin jumped three fold from $5.3 M to $15 M, according to the Wisconsin Angel Network report. The number of venture deals increased from 18 to 53. Another $10 M of equity financing and plenty more high growth companies would be welcome anywhere.

Jobs come from growing entrepreneur ventures, but entrepreneurs are starved for debt and equity capital. Angels are sophisticated investors who may invest in new and emerging ventures with a small portion of their investment portfolio. In a recession, it is difficult to encourage angels to invest. One way is through tax credits.

Angel money is vital - not all ventures can be bootstrapped or financed from friends and family. Banks are in lockdown. Venture capital only invests in later stage ventures, not startups and early stage ventures. So we need angels for the critical $50,000 to $2 M often needed for vital venture growth.

Tax Credits move money - available seed capital (debt and equity) for new ventures has dramatically shrunk over the last two years. Tax credits are a way to incentivize seed capital, reducing risk for the investor - with no transaction or administration costs for the state. Ventures stall out and die when no capital is available. Growth takes capital, and reducing risk encourages money to move.

Angels provide entrepreneur expertise - angles provide more than funding as they have experience, expertise and connections that are valuable to entrepreneurs. The tax credit encourages angels to provide funding and brainpower while doing economic development– *a triple bottom line return.*

Money follows money – angels follow fellow angels when making investment decisions – it is like investing in oil wells – no deal is so good you do it alone. Kick starting angels to invest attracts other angels to invest – including out-of-state angels who know North Dakota angels. More out of state funds can be attracted by allowing the sale or transfer of investment tax credits. North Dakota ventures benefit from the angel investment, and they angels can transfer/sell their credits to North Dakota taxpayers. North Dakota needs to attract equity investment from angels who live elsewhere.

Conclusion: *Entrepreneur funding is painfully short, tax incentives encourage angels to invest, angels attract other angels including from out of state, transfer/sale of tax credits attract out-of-state investors. Angel investing= venture growth = jobs = tax revenues.*