



POSITION STATEMENT

TESTIMONY PRESENTED TO THE SENATE BUDGET & TAXATION COMMITTEE

SENATE BILL 584 – ANGEL INVESTOR TAX CREDIT PROGRAM

**DONALD C. FRY
PRESIDENT & CEO
GREATER BALTIMORE COMMITTEE**

POSITION: Support

The Greater Baltimore Committee (GBC) is a non-partisan, independent, regional business advocacy organization comprised of hundreds of businesses -- large, medium and small -- educational institutions, nonprofit organizations and foundations located in Anne Arundel, Baltimore, Carroll, Harford, and Howard counties as well as Baltimore City. The GBC is a 60-year-old, private-sector membership organization with a rich legacy of working with government to find solutions to problems that negatively affect our competitiveness and viability. It is an organization that prides itself on advocating for changes in public policies that strengthen the business climate while improving the quality of life.

The Greater Baltimore Committee supports Senate Bill 584 – Angel Investor Tax Credit Program.

In the recently released report of the Maryland Economic Development and Business Climate Commission, the commission's principal finding was that Maryland has not reached its potential in growing business and creating jobs. Though the state boasts high rankings in terms of research and development and other innovation-based metrics, significant challenges remain when it comes to job creation, technology transfer out of our state's institutions of higher learning, and the overall business climate. Recommendations for overcoming these challenges included diversifying the economy, incentivizing tech transfer, and increasing the availability of venture capital.

The Angel Investor Tax Credit directly addresses the concerns of the commission by providing an incentive aimed at increasing venture capital, increasing technology transfer, growing businesses, and creating jobs.

Angel investors play a very important role in the entrepreneurial community by providing much needed early-stage funding to startup companies. While traditionally this role was filled by venture capitalists, over the past few years angel investors have become the most active investor group, funding more than 60 times as many companies as venture capitalists. The Kauffman Foundation estimates that angel investors provide up to 90 percent of early-stage equity that is not provided by friends or family and tend to invest in a wider range of innovation than traditional venture capitalists.

The idea of tax credits for angel investors is not unique. Many states across the country have or have had angel investor tax credit programs, many with great success. Studies have shown that 29 states implemented angel investment tax credit programs between 1997 and 2011 (and had data available to analyze). Of those 29 states, 22 experienced an increase in entrepreneurial activity within the first two years of the program. Eight of those states implemented their program during a slowdown in the national economy and still managed to demonstrate an increase in entrepreneurial activity.

As proposed, SB 584 would provide a nonrefundable tax credit equal to 50 percent of an investment made by a Qualified Investor in a Qualified Innovation Business. Unlike other tax credits in the state, the Angel Investor Tax Credit would not be specific to any one industry. This flexibility makes the Angel Investor Tax Credit an especially important tool for an economy that is constantly changing and presenting new opportunities. With the passage of this legislation, when the next "hot" industry evolves, Maryland will be at the forefront of innovation as other states struggle to create a new industry-specific incentive.

GREATER BALTIMORE COMMITTEE

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The Angel Investor Tax Credit is not only an incentive for investors and startups, but also an important tool in the toolbox for our state's economic development professionals who are constantly engaging existing businesses and potential startups at the local level. For our state's institutions of higher learning, this program is another way to incentivize technology transfer. The Journal of Multistate Taxation and Incentives called angel investment tax credits a "win-win-win proposition," citing benefits for investors, new business ventures, and states.

In order to grow our economy, there must be incentives in place that are flexible enough to grow with the economy and work to overcome the imminent problems facing our state's entrepreneurial community. Passing the Angel Investor Tax Credit would be a smart investment in our state's economy, one that will surely result in dividends over the coming years.

For the reasons stated above, the Greater Baltimore Committee urges a favorable report of Senate Bill 584.