Appendix H: Incentives for private investors of startups by state

Angel investor tax credits are the most common incentives states offer to private investors of startup businesses, though some states have other types of incentives.

Angel investor tax credits

Half of U.S. states currently offer angel investor or early stage equity and/or subordinate debt tax credits (Table H-1). Nine states have repealed or allowed their programs to expire, including Vermont (2014); Georgia, Michigan, and Nebraska (2011); North Carolina (2008); Rhode Island (2007); West Virginia (2005); Hawaii (1999); and Oklahoma (1998). Programs vary along several dimensions, including eligibility requirements for investors, investment holding period and size, criteria for participating companies, and magnitude and form of the incentive.

Eligible investors. Many states exclude certain types of "insider" investors from participating in their programs such as: (a) owners and their immediate family members (64% of states), (b) officers of the companies (18% of states), and (c) full-time employees of the companies (16% of states). Sixteen states limit the amount of ownership interest that an investor may have in the qualified company, ranging from 10% (New York) to 80% (New Jersey), with a median of 40%. Ten states (40%) restrict their tax credits to certified investors (i.e., those with investable assets of at least $1 million or at least $200,000 in annual income).

Qualifying investments. States also often impose investment minimums and maximums. Ten states have minimum investment amounts ranging from $10,000 to $25,000 with a median of $15,000. Caps are also imposed on the amount of credits that an individual can receive or amount of qualifying investment a beneficiary business may receive over a designated time period. Half of the states have a minimum investment holding period ranging from one to five years, with three years being the median length.

Qualifying Businesses. Almost all states with an angel investment or similar tax credit (with exception of Arkansas) restrict participation to young or small businesses. Various metrics are used to assess eligibility, including (a) employment (14 states) with a median cap of 50 employees, (b) company revenues (13 states) with a median revenue cap of $5 million, (c) age (12 states) with a median age cap of seven years, or (d) company assets/net worth (5 states). The $5 million median company revenue cap is higher than Virginia's $3 million revenue cap. States also often restrict eligibility on the basis of the prior level of equity funding raised or qualified prior tax credit investment received. Almost all states also restrict qualifying investments to firms in designated industries. These restrictions can be as broad as all export-base businesses (12 states), high technology industries (eight states, including Virginia), or more narrowly targeted industries such as life sciences/biotech (three states). Ten states (40%) also require participating businesses to be "innovative," which is defined differently by state statute but usually means that a business uses a "proprietary technology" or engages in R&D to develop a product or process.

Incentive size and forms. State incentives vary in terms of size, liquidity, and flexibility of use. Tax credit reimbursement rates vary from a high of 50% (Kentucky, Maryland, Tennessee, and Virginia) to a low of 10% (New York and Ohio). The median tax credit rate ranges from a low of 25% to a high of 33.3%. The higher credit rate reflects an additional credit rate bonus that several states offer for particular types of businesses, including those located in rural or distressed areas, university spinoffs, or other categories of firms. Most state tax credits offer transferable (six states) or refundable (eight states) credits. Credit rollover periods vary from none to unlimited with a median rollover period of 5 years.

Other incentives for investors

Fourteen states offer long term capital gains tax incentives (Table H-2). They come in several forms, including tax subtractions (10 states), tax credits (2 states), tax deferral (New York) and a preferential tax rate (Hawaii). Some are unrestricted while others are targeted at particular types of capital gains investments. Several states restrict capital gains subtractions to small businesses, real estate assets, or domiciled companies. New York offers a capital gain tax deferral for qualified emerging technology investments, making it the only other state than Virginia to target high technology firms using this type of tax incentive.

Although much less common than angel tax credits that are directed at stimulating seed investments, seven states offer tax incentives for later stage equity investments. Since these investments are intermediated by Venture Capital funds, the tax incentives benefit the investors in venture capital funds that then make investments in eligible state-based businesses. The most common incentive vehicle is a Venture Capital Fund tax credit offered by Arkansas, Indiana, Iowa, Kansas, and Kentucky. Virginia and Rhode Island are the only states that offer tax subtractions for VC fund investments (Table H-3).

TABLE H-1
State angel investor tax credits

State	Name	Year	Tax credit rate	Firm size restrictions	Excluded investors	Transferable/ refundable	Carry forward period	Industry restrictions
Arizona	Angel Investment Program	2006	30–35%	Assets=$10M	Owners and families		3 years	Export-base industries excluding mining, forestry, ag., and natural resources
Arkansas	Equity Investment Incentive Program	2007	33.30%			Transferable	9 years	Targeted non-retail
Colorado	Advanced Industry Investment Tax Credit	2014	25–30%	Revenue=$5M; Age=5 years	Owners and families		5 years	Targeted high-tech
Connecticut	Angel Investor Tax Credit Program	2010	25%	Revenue=$1M; Employment=25; Age=7 years	Owners and families		5 years	Targeted high-tech and prequalifying businesses
Delaware	Angel Investor Tax Credit	2018	25%	Employment=25; Age=10 years	Executives and officers	Refundable		Qualified high-tech field
Illinois	Angel Investment Credit Program	2011	25%	Employment=100; Age=10 years	Owners and families		5 years	Selected high tech industries or engaged in pre-commercialization activities
Indiana	Venture Capital Investment Tax Credit Program	2004	20–25%	Revenue=$10M	Owners and families	Transferable	5 years	Export base industries excluding oil and gas

State	Name	Year	Tax credit percentage	Firm size restrictions	Excluded investors	Transferable/ refundable	Carry forward period	Industry restrictions
Iowa	Venture Capital Qualifying Business (Angel Investor) Tax Credit	2002	25%	Net worth=$10M; Age=6 years		Refundable for individual filers	5 years	Local service industries (e.g., retail) excluded
Kansas	Angel Investor Tax Credit	2005	50%	Revenue=$5M; Age=5 years	Full-time employees; Executives and officers	Transferable	Unlimited	Local service industries (e.g., professional services) excluded
Kentucky	Angel Investment Act Tax Credit	2015	40-50%	Net worth=$10M; Employment=100	Owners and families; Full-time employees	Transferable	15 years	Qualified industries do not include finance, insurance, retail. Mainly export base industry
Louisiana	Angel Investor Tax Credit	2005	25–35%	Net worth=$2M; Revenue=$10M; Employment=50	Owners and families; Executives and officers	Transferable		Not retail trade professional services, financial services, etc. (export base only)
Maine	Seed Capital Tax Credit Program	1989	40%	Revenue=$5M	Owners and families; executives and officers	Refundable for VC funds	15 years	Export base and advanced technologies
Maryland	Biotechnology Investment Incentive Tax Credit	2007	50%	Employment=50; Age=10 years	Owners and families	Refundable		Biotech
	Cybersecurity Investment Tax Credit	2014	33–50%	Employment=50; Age=10 years	Owners and families	Refundable		Cybersecurity
Massachusetts	Angel Investor Tax Credit	2017	20–30%	Revenue=$0.5M; Employment=20			3 years	Life sciences
Minnesota	Angel Tax Credit	2010	25%	Employment=25; Age=10	Owners and families; Executives and officers	Refundable		

State	Name	Year	Tax credit percentage	Firm size restrictions	Excluded investors	Transferable/ refundable	Carry forward period	Industry restrictions
	Seed Capital Investment Credit	2019	45%		Owners and families		4 years	Geographically restricted to border cities
New Jersey	Angel Investor Tax Credit Program	2013	20–25%	Employment=225	Owners and families	Refundable		Selected high tech
New Mexico	Angel Investment Credit	2007	25%	Revenue=$5; Employment=100	Full-time employees; executives and officers		5 years	Not retail trade, professional services, financial services, etc. (export-base only)
New York	Qualified Emerging Technology Company Tax Credits	2000	10–20%	Revenue=$10M	Owners and families	Refundable	Unlimited	Emerging tech with above average R&D expenses
North Dakota	Seed Capital Investment Tax Credit	1993	45%	Revenue=$10M	Owners and families		4 years	Primary sector business but not agriculture
	Angel Investor Investment Credit	2017	25-35%	Revenue=$10M			5 years	Not engaged in real estate or hospitality industries
Ohio	InvestOhio	2011	10%	Assets=$50M; Revenue=$10M			7 years	
South Carolina	High Growth Small Business Job Creation Act	2013	35%	Employment=25		Transferable	10 years	Selected export-base industries
Tennessee	Angel Tax Credit	2017	33–50%	Revenue=$3M; Employment=25; Age=5 years			5 years	Not professional services, hospitality, retail, etc.
Utah	Life Science and Technology Tax Credits	2011	35%	Employment=500	Owners and families			Life sciences only

State	Name	Year	Tax credit percentage	Firm size restrictions	Excluded investors	Transferable/ refundable	Carry forward period	Industry restrictions
Virginia	Qualified Equity and Subordinated Debt Investments Credit	1999	50%	Revenue=$3M	Owners and families; Full-time employees; executives and officers		15 years	Selected high tech
Wisconsin	Qualified New Business Venture Program	2005	25%	Employment=100; Age=10 years	Owners and families	Refundable for early stage, seed stage investments	15 years	High tech, does not include real estate, hospital, professional services, etc.

SOURCE: Weldon Cooper Center Analysis based on Wolters Kluwer VitalLaw, McNichol (2021) and Guzman (2020).

TABLE H-2
State long-term capital gains tax incentives

State	Type	Incentive amount	Description
Arizona	Subtraction	25% of capital gains	
Arkansas	Subtraction	50% of capital gains	The amount of net capital gain in excess of $10 million from a gain realized on or after January 1, 2014, is exempt from the state income tax.
	Subtraction	Subtraction for qualified small business stock held five years. The amount of the subtraction increases from base of 50% by 10% for each additional year the stock is held up to a maximum of 100%.	"Qualified small business" means any domestic corporation whose total capitalization does not exceed $100 million and no more than 10% of the firm assets are held in the form of real estate during the holding periods.

State	Type	Incentive amount	Description
Hawaii	Preferential tax rate	Capital gains are taxed at 7.2% versus top rate of 11% for ordinary income.	
Louisiana	Subtraction	Subtraction for equity interest of non-publicly traded business domiciled in state for five years or greater is 50%. The amount of the subtraction increases by 10% for each additional five years the stock is held up to a maximum of 100%.	
Mississippi	Subtraction	State exempts the gain from the sale of authorized shares in financial institutions domiciled in state. Gains are also exempted on domestic corporations or partnership interests in domestic corporations or partnership interests in domestic limited partnerships and domestic limited liability companies that have been held for more than one year.	
Montana	Tax credit	Credit of 2% of capital gains	
New Mexico	Subtraction	40% of capital gains deduction or up to $1,000, whichever is higher	

State	Type	Incentive amount	Description
New York	Tax deferral	Taxpayer can defer gain from sale of qualified emerging tech investments if gain is reinvested in a state-based qualified emerging technology company.	Company must be located in state with total annual product sales of $10 million or less and meet one of the following criteria: (1) primary products or services include: advanced materials and processing technologies, engineering, production, and defense electronic and photonic devices and components, information and communications technologies, biotechnologies and nanotechnologies, remanufacturing technologies, or (2) the company has R&D activities in state. Its ratio of research funds to net sales must equal or exceed the average ratio for all surveyed companies, as determined by the National Science Foundation.
North Dakota	Subtraction	40% of capital gains	
Oklahoma	Subtraction	The sale of stock or on the sale of an ownership interest in an Oklahoma company, limited liability company, or partnership, where such stock or ownership interest has been directly or indirectly owned by the corporation, estate, or trust, for a holding period of at least three years prior to the date of the transaction from which the net capital gains arise.	
South Carolina	Subtraction	44% of capital gains	

State	Type	Incentive amount	Description
Utah	Tax Credit	Credit is equal to 5% of the eligible short-term or long-term capital gain. Any credit that is more than the tax liability may not be carried back or forward.	Credit can be claimed for the short-term and long-term capital gain on a transaction if: (1) it occurs on or after Jan. 1, 2008; (2) at least 70% of the gross proceeds of transaction are used to buy stock in a qualified state small business corporation within 12 months from when the capital gain transaction occurred; and (3) one did not have an ownership interest in the qualified small business corporation at the time of investment. Corporation must be domiciled in state and aggregate amount of money and other property received by the corporation for stock, as a contribution to capital and paid-in surplus, may not exceed $2.5 million.
Vermont		40% of gains from nonpublic companies held more than three years or up to $5,000 or capital gains.	
Virginia	Subtraction	100% of long-term capital gain for a qualified business or in any other technology business approved by the secretary of technology.	Qualified businesses include those related to advanced computing, advanced materials, advanced manufacturing, agricultural technologies, biotechnology, electronic device technology, energy, environmental technology, medical device technology, nanotechnology, or any similar technology-related field. The business must have its principal facility in Virginia and less than $3 million in annual revenues for the fiscal year preceding the investment.
Wisconsin	Subtraction	30% of capital gains (60% for farms)	

State	Type	Incentive amount	Description
	Subtraction	100% of capital gains for qualified state-based business held for five years.	A qualified business is a business certified by the Wisconsin Economic Development Corporation or registered with the Department of Revenue.

SOURCE: Weldon Cooper Center Analysis based on Wolters Kluwer VitalLaw, McNichol (2021), and Guzman (2020).

TABLE H-3
State venture capital fund investment tax incentives

State	Type	Program name	Program description
Arkansas	Tax Credit	Venture Capital Investment Act Tax Credit	State provides an income tax credit up to $10 million per fiscal year as recommended by the Arkansas Development Finance Authority and approved by the State Board of Finance. The credit is non-refundable and may be carried forward for five years.
Indiana	Tax Credit	Venture Capital Investment Act Tax Credit	Eligible investments are those made in a Qualified Indiana Investment Fund (QIIF), according to an approved capital investment plan. A Qualified Indiana Investment Fund meets the definition of a Venture Capital Fund. It makes numerous high-risk investments in pre-seed, seed, and early-stage high-growth businesses. The primary purpose of such businesses is the commercialization of R&D, technology transfer, or application of new technology.
Iowa	Tax credit	Innovation Fund Tax Credit	Individual investors can receive tax credits equal to 25% of an equity investment in a certified Innovation Fund. In turn, those certified Innovation Funds make investments in promising early-stage companies that have a principal place of business in the state. Innovative businesses can include, but are not limited to, businesses engaged in advanced manufacturing, biosciences and information technology.
Kansas	Tax credit	Venture Capital Credit	A taxpayer who invests in a certified local seed capital pool will be allowed a credit against their income tax liability. The credit is 25% of the cash investment in the local seed capital pool. The credit may be carried forward until the total amount of credit is used. A local seed capital pool must be certified by the secretary of commerce.

State	Type	Program name	Program description
Kentucky	Tax credit	Kentucky Investment Fund Act	The program offers a 40% tax credit to certain personal and corporate investors participating in approved investment funds. Minimum fund size is $500,000. A certified investment fund must have no less than four unaffiliated investors. No investor may have a capital interest in more than 40% of the investment fund's total capitalization. The total amount of tax credits available to any single investment fund shall not exceed, in aggregate, $8 million for all investors and all taxable years. Total qualified investments made by an investment fund in any single business shall not exceed 30% of the committed cash contributions to the investment fund.
Rhode Island	Subtraction	Small Business Capital Investment Tax Incentives	Small business entities or venture capital partnerships that are certified by the Rhode Island Economic Development Corporation may be eligible for a deduction or an amount equal to the taxpayer's qualifying investment in a certified venture capital partnership. "Certified venture capital partnership" means any partnership that has at least three partners each of whom has contributed at least $5,000 and who have contributed in the aggregate at least $250,000 to the partnership. Qualified investments are capital invested in qualifying business entities whose principal office and majority of assets are located in the state.
Virginia	Subtraction	Venture Capital Account Subtraction	Income tax subtraction or certain income attributable to an investment in a Virginia venture capital account, defined as an investment fund that (i) invests at least 50 percent of its funds invested during the year in which the taxpayer claims a subtraction, or any of the previous five years, in qualified portfolio companies and (ii) employs at least one investor who has either at least four years of professional experience in venture capital investment or substantially equivalent experience.

SOURCE: Weldon Cooper Center Analysis based on Wolters Kluwer VitalLaw, McNichol (2021) and Guzman (2020).