

2020 REPORT

Angel Tax Credit Impact



Launch
Tennessee

INTRODUCTION

This report is to fulfill Launch Tennessee's obligation under TCA 67-2-125, to review various aspects of the effectiveness of the Angel Tax Credit. The term "Angel Investor" is common in the investment community as in most cases it is referring to an entity that uses their funds to make investments in companies that are in their earliest stages. As noted by the Kauffman Foundation, once a startup founder has used the majority of their own resources to fund a company, a timely investment from an Angel Investor "makes a critical difference to the success of the firm."

In 2017 the Tennessee General Assembly implemented the Angel Tax Credit, which awarded investors a non-refundable tax credit worth up to 33% of their qualifying investments to be used against their Hall Income tax liability. As administrator of the Angel Tax Credit program, Launch Tennessee has been tasked with evaluating companies seeking to be enrolled into the program, as well as, evaluating applications for the credit submitted by Angel Investors. These evaluations consisted of ensuring that applications from companies and investors met the requirements set by the law.



"We had several investors invest because of the angel tax credit. There were also several that put in larger checks because the credit was available."

Jessica Harthcock, Utilize Health, CEO

PROGRAM

To be eligible to receive investment through the Angel Tax Credit program, companies were required by TCA 67-2-125 to meet certain criteria, as were the investors receiving the credit. Those criteria can be found in the Program Requirements section of this report.

The results since inception (tax year 2017):

- 96 companies applied to be included in the program
- 90 companies were deemed eligible for qualified investments
- 29 companies received ATC qualified investments
- 170 applications were submitted for the ATC
- 115 applications for the ATC were approved

In summary, approved applications for the Angel Tax Credit represented approximately \$8.6 million in investments across 29 companies, for which approximately \$2.5 million of Angel Tax Credit was granted. Launch Tennessee compiled all approved Angel Tax Credit investments each tax year, listing the investor, company, investment amount, and tax credit amount for each investment. After the close of each tax year, this list was submitted to the Tennessee Department of Revenue which certified each credit and sent appropriate forms to be used by investors against their Hall Income Tax liability.

Note on the Hall Income Tax

Simultaneous to the passage of the Angel Tax Credit, the General Assembly approved a phasing out of the Hall income tax which is set to expire January 1, 2021.

PROGRAM METRICS

Launch Tennessee is pleased to report that as of May 7, 2020, 90% of businesses that received Angel Tax Credit investment are still in business. According to the US Bureau of Labor Statistics approximately 50% of businesses fail within five years. Below is a matrix of key Angel Tax Credit program metrics:

COMPANY METRICS	
Total number of companies applying to receive ATC investment	96
Total number of companies approved to receive ATC investment	90
Total number of approved companies receiving ATC investment	29
Percent of companies approved to receive ATC investment	94%
Percent of approved companies that received ATC investments	32%
Percent of companies who received ATC investment still in business	90%
Industry of companies receiving ATC investment	Healthcare (11), MusicTech (3), Fashion (1), Green Energy (1), Cloud Technology (1), GovTech (1), Logistics (1), Social Impact Technology (1), Communication software (1), Biotechnology (1), Augmented Reality(1), Compliance Technology (1), Application Software (1), Construction(1), EdTech (1), Hardware (1), Marketing Technology (1)
Of respondents, average full-time employment in participating companies*	8.25
Of respondents, average part-time employment in participating companies*	3

*Calculated from companies that responded to the survey

INVESTMENT METRICS

Total investment receiving the Angel Tax Credit	\$8,572,992
Total amount of Angel Tax Credits Awarded	\$2,493,021
Total Angel Tax Credit Claimed as of 4/3/2020	\$678,000
Percent of Total issued Angel Tax Credit that has been claimed	27%
Average amount Angel Tax Credit awarded	\$21,678
Median amount Angel Tax Credit awarded	\$16,667
Number of Investments for which an Angel Tax Credit application was filed	170
Number of Approved Investments	115
Percent of Investments approved to receive Angel Tax Credit	68%
Number of Investors	89
Number of new* Investors	54
Percent of Investors that are new*	61%
Total amount of Investment made by new* Investors	\$4,062,212
Total amount of Angel Tax Credits awarded to new* Investors	\$1,188,071
Average amount of Investment	\$74,548
Median amount of Investment	\$50,000
Average Investment amount by new* Investors	\$75,226
Percent of Total Investment that was made by new* investors	47%
Investments made in Tier 1 counties**	\$7,777,992
Investments made in Tier 2 counties**	\$795,000
Percent of Total Investments being made in Tier 1 counties	91%
Percent of Total Investments being made in Tier 2 counties	9%

* Investors whose participation in the Angel Tax Credit program represented their first investment within 24 months; this information was gathered at the time of each investor's ATC application.

** Investments made in non Tier 1 counties were eligible to receive more in Angel Tax Credit.

COMPANIES THAT BENEFITED

Company	Company Status	County	Industry	Investment	Tax Credits
Enexor BioEnergy	In Business	Williamson	Green Energy	\$ 1,298,000	\$ 333,333
iQuity Labs	In Business	Davidson	Biotechnology	\$ 1,025,000	\$ 241,667
Satchel Health	Out of Business	Davidson	Healthcare	\$ 864,426	\$ 171,476
Preferral	In Business	Williamson	Healthcare	\$ 520,016	\$ 173,339
Healing Innovations, Inc.	In Business	Davidson	Healthcare	\$ 475,000	\$ 158,333
SweetBio, Inc.	In Business	Shelby	Healthcare	\$ 445,000	\$ 148,333
Authentically American	In Business	Davidson	Fashion	\$ 420,000	\$ 140,000
Vendor Registry	In Business	Knox	GovTech	\$ 417,119	\$ 139,040
HurdI	In Business	Davidson	Communication software	\$ 380,000	\$ 101,667
Arkis BioSciences	Acquired	Knox	Healthcare	\$ 340,000	\$ 113,333
A3 Freight Payment	In Business	Shelby	Logistics	\$ 300,000	\$ 100,000
Jammer	In Business	Davidson	MusicTech	\$ 205,000	\$ 60,000
Roofing Corporation of America	Out of Business	Williamson	Construction	\$ 200,000	\$ 66,667
MedProctor	In Business	Davidson	Healthcare	\$ 180,000	\$ 60,000
SOMAVAC	In Business	Shelby	Healthcare	\$ 175,000	\$ 58,333
Utilize Health	In Business	Davidson	Healthcare	\$ 150,000	\$ 50,000
Health Here, Inc	In Business	Davidson	Healthcare	\$ 150,000	\$ 50,000
Nourishwise	Out of Business	Davidson	Application software	\$ 140,000	\$ 46,667
SafeSurv	In Business	Davidson	Compliance Technology	\$ 100,000	\$ 33,333
NPREX	In Business	Davidson	MusicTech	\$ 100,000	\$ 33,333
Havenlock	In Business	Williamson	Home Security	\$ 100,000	\$ 33,333
Givful	In Business	Davidson	Social Impact Technology	\$ 100,000	\$ 33,333
CEAdvisory, Inc.	In Business	Davidson	EdTech	\$ 100,000	\$ 33,333
JumpCrew	In Business	Davidson	Marketing Technology	\$ 95,931	\$ 16,667
Idyl Technologies	In Business	Davidson	Cloud Technology	\$ 92,500	\$ 30,833
CaredFor	In Business	Davidson	Healthcare	\$ 75,000	\$ 25,000
VideoBomb	In Business	Tallahoma	Augmented Reality	\$ 50,000	\$ 16,667
SweetBio, Inc	In Business	Shelby	Healthcare	\$ 50,000	\$ 16,667
Artiphon	In Business	Davidson	MusicTech	\$ 25,000	\$ 8,333
Grand Total				\$ 8,572,992	\$ 2,493,021

CONCLUSION

As required by the enacting statute, this report has been written to cover the key program metrics of the Angel Tax Credit program and has been transmitted to the Governor, the Speaker of the Senate, the Speaker of the House of Representatives, the Chair of the Finance, Ways and Means Committee of the Senate, the Chair of the Finance, Ways and Means Committee of the House of Representatives, the Commissioner of Economic and Community Development, the Commissioner of Revenue, and the general public.

In total 29 companies received investment that totaled approximately \$8.6 million dollars with approximately \$2.5 millions dollars awarded in Angel Tax Credit. As of April 3, 2020, only \$678,000 in approved Angel Tax Credit has been claimed by investors against their Hall Income tax liability. **Launch Tennessee is pleased to report that 90% of companies who received investment are still in business.** As our mission is “to empower a high-functioning network of resources that support Tennessee’s entrepreneurial ecosystem,” Launch Tennessee stands ready and willing to work with state leaders to find policy solutions in pursuit of that goal.

“The ATC program was a big part of our investment pitch with Angels in TN. It was used to help close some deals.”

Luke Benda, Healing Innovations, CEO



ATC IMPACT

\$8.6M

dollars
invested



29
companies
benefited from
the Angel Tax
Credit

90%
of companies
who received ATC
funds are still in
business

APPENDIX I

Survey of Participants

In the months prior to this report, Launch Tennessee contacted all participating investors and companies and invited them to participate in a final survey. The survey received 30 responses from investors and 8 from companies. This represented 34% of all investors and 28% of companies who participated in the Angel Tax Credit program.

Summary of Results:

- 60% of respondents stated that their total investment activity would have been less without the Angel Tax Credit
- 27% of respondents stated that their total investment activity would have been the same without the Angel Tax Credit.
- 13% of respondents stated that their total investment activity would have been more without the Angel Tax Credit.
- 63% of responding companies, indicated that their ability to attract capital was significantly higher because of their ATC qualification.
- 37% of responding companies, indicated that their ability to attract capital stayed the same, even with their ATC qualification.

**"It makes me feel better
about investing in these
risky startups."**

Hilliard Crews, Investor



APPENDIX II

COMPANY GUIDELINES

Qualifying business	<p>Company needs to fulfill one of the following:</p> <ul style="list-style-type: none"> a) be an innovative small business with high-growth potential b) have received small business innovation research (SBIR) funding c) have received small business technology transfer (STTR) funding d) be commercializing technology developed at a Tennessee-based research institution e) is not a professional service firm and is not primarily engaged in the provision of goods or services within the following industries: construction, leisure, hospitality, retail, real estate, insurance, banking, lobbying, consulting, alcohol, or gambling;
Employees	<p>Company needs to fulfill all of the following:</p> <ul style="list-style-type: none"> a) have fewer than 50 full-time employees b) have 60% of employees doing the majority of their work in TN
Revenue	Should not exceed \$3M annually
Incorporation docs	Company needs to provide valid copies of their formation documents
Business commencement date	Company needs to be under (5) years old at time of investment

APPENDIX III

INVESTOR GUIDELINES

Investment	<p>A qualifying investment must meet all of the following:</p> <ul style="list-style-type: none"> a) be at least \$15,000 b) does not exceed 40% of the post-money valuation of the company at the time of investment
Accreditation	Investor needs to certify that they are accredited
County	Investments in companies in Tier 4 counties qualifies for 50% credit
Limit	Max credits for one investor is \$50,000 / year
Investment date	Investment must take place in the tax year for which the credit is claimed and application must be received within 60 days of the investment to qualify
Company Age	Company must be under 5 years of age
Securities and Exchange Commission (SEC) Accredited Investor Definition	<p>An accredited investor, in the context of a natural person, includes anyone who:</p> <ul style="list-style-type: none"> · earned income that exceeded \$200,000 (or \$300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, OR · has a net worth over \$1 million, either alone or together with a spouse (excluding the value of the person's primary residence). <p>There are other categories of accredited investors, including the following, which may be relevant:</p> <ul style="list-style-type: none"> · any trust, with total assets in excess of \$5 million, not formed specifically to purchase the subject securities, whose purchase is directed by a sophisticated person, or any entity in which all of the equity owners are accredited investors.



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