Engine

What Startups are Saying About the JOBS 4.0 Draft

General Feedback:

- "This bill seems to be written from the perspective of major startup hubs where venture capital is fairly established. These provisions will still help, but from what I see, most startup communities are still a very far cry from having a distinction from $10m - $20m matter. The big gap for broad enhancement of dealflow is in seed funding < $1m; in many communities it's < $250k." Eric Parker, theClubhou.se

Expanding American Entrepreneurship Act:

- "I do believe the cap level should be higher, a $50 million fund and 500 investors is still very low by modern fund standards, but it is a tremendous step forward. I do feel that, as a society, we can do better. However, this is a great first step in truly helping accredited women investors and investors of color participate in funds, who typically are disregarded." - Stephanie Roulic, Startup Boston

Equal Opportunity For All Investors Act

- "This is by far the most important thing in this document. Changing this would be HUGE for truly allowing anyone to invest without arduous hoops for businesses and investors. If I were to offer a rework, maybe I would bump this up to 20 or 25% and/or include a secondary test for net worth that could allow individuals to make larger investments (e.g 10% of net worth)." Andrew Prystai, Event Vesta
- "Why should someone who makes $150k in a market with a low cost of living be subjected to more requirements than someone making $300k in a vastly more expensive market. I would argue that the person making $150k in middle America has a much higher proportion of disposable income. If the exam is required, accreditation should scale based on cost of living in your region." Eric Parker, theClubhou.se
- "I would be very careful with the language used [on the exam] so it's layman's terms and easily accessible and understandable to virtually anyone. Staffers would do well to stay away from legalese if they hope to improve things." Yasmin Mattox, Arkatecht

Expanding Access to Capital for Rural Job Creators Act:

- "We are not rural based, but we are rural adjacent and in terms of networking, we are near some rural startups. From what we've heard, there is an issue of access to networking opportunities. Virtual networking events through SBA and its partners can help rectify this situation. Shining a light on opportunities for innovation in the tech space in a manner that uplifts rural communities could be leveraged in a number of ways. Challenges posed by SBA to bring these rural startups into the fold in terms of connectivity and a spotlight on often "invisible or overlooked" rural issues could be powerful and timely given forecasted impacts of the pandemic on supply chain issues related to agribusiness, food, and manufacturing facilities. Regarding the latter, this is particularly the case for tech platforms in the HR space working with agribusinesses to address the above." Yasmin Mattox, Arkatecht

- "I'm not a "rural" startup but in a more "rural" state I believe the issue overall is access to capital, as SBA can't make loans to asset lite businesses like ours. I don't have great ideas off the top of my head, but I do think almost anything here (whether loosening restrictions on small grants from the SBA, providing working capital to potential investors, or setting up tax credits for angel investments) would help." Andrew Prystai, Event Vesta

Improving Crowdfunding Opportunities Act

- "The viability of this improvement will in great part rest on whether information is marketed to communities typically crowded out of/unaware of Reg CF opportunities. Vehicles exist for this already under economic development programs. There are opportunities for partnerships with online banking services that cater to low to moderate income and working class communities who can invest using a graduated approach to help build community and generational wealth." Yasmin Mattox, Arkatecht
- "We need to think about education—educating the public about what the SEC does around all of this. You need to empower local people that can speak to communities directly—putting something on a website isn't going to empower an under-resourced person, for example, someone without broadband, to access any of this."

  "There is still a barrier to being able to run an equity crowdfunding campaign. There are security law-related costs, getting certified, and what is quietly happening is the bigger platforms are shifting more towards unicorn-possibility businesses and not bringing on the ones that aren't that. You see picking and choosing the winners and losers because they want the big money campaigns."

  "Education is key here, our community should know about crowdfunding like they know about lottery tickets. You need navigators. The education component at the SEC needs to be more robust so that people can educate themselves as to what crowdfunding is. It is further complicated because the SEC restricts how much education you are permitted to provide as a crowdfunding portal." Renee King, Fund Black Founders

What is missing from the draft?

Angel Tax Credits

- "The credits work for the angel getting a tax benefit when investing in a Kansas qualified company. We are still in the process. It makes our company more attractive for angel investors because they benefit from investing." Jeff Wigh, Bryght Labs
- "A National Angel Tax Credit / Regional Tax Credit would be beneficial (vs the state credits) just for the simple fact that the federal taxes are so much higher proportionally - but

we do know these programs work. As Nebraska's Angel Tax Credit was creating a 4x dollar for dollar economic return for every dollar that was counted for a credit. In terms of an actual framework I'm not confident on what is the best setup out there but would advocate it should have at a minimum:" Andrew Prystai, Event Vesta

- **"Application to be a "startup"**To have some type of application process for companies to prove their "startups" - otherwise you would likely see people use this to fund their other entities / companies that don't meet that mold. Also this application process would help reduce potential fraudulent claims.
- **Claimed on Tax Returns retroactively** I would have the credit be a post investment activity. In Nebraska they had a complicated application system where our company had to be approved for the credit THEN investors could write us the check. This was super confusing for everyone & I'd advocate that it would just be something done on a tax year basis. Allowing an investor to claim the credit on their tax return for the year in which they made the investment.
- **Amount Limited per Person:** In Nebraska they made this portional to the total amount invested - which resulted in the funds squeezing the "true" angels that really need this credit the most to get involved. I'd advocate that this program should have some annual or lifetime limit per person / fund on a graduated scale that is very generous at the bottom and then creates very little credits at the top (e.g. 50% to 100% credit for the first $25K up to a max of 5% for $100K or something). This might be slightly unfair to existing angels but at the end of the day the goal of this program in mind should be to encourage potential angels to get off the sideline and making investments vs incentivizing the current angels. And if you don't apply an aggressive limit like this, you will likely see something happen like what happened in Nebraska where the main street angel was squeezed out.
- **Prioritize Individuals:** I would make this an individual credit vs one VC's could use, mostly so we can get the best economic ROI for the public dollars spent. In this case though there would likely need to be a carveout for LLCs that angels use as an investment vehicle into one company (a fairly common and startup friendly practice).
- **Refundable?** If you really wanted to be generous you could make this a refundable tax credit, but I'd assume if the application process for the two steps above are fairly generous - then this wouldn't be necessary.
- Additional Ideas Here: I think to really get the most bang for our buck (and make this even more politically feasible) you could apply some of the following carve outs to this idea:
    - **Special Bonuses for Certain Categories**: You could use the application structure to create "bonus" investment categories to encourage capital flowing to places it hasn't been & reward investors by giving them extra capital allocations beyond the "normal" tax credits they would get. You could do this for regional areas (like "non-traditional" tech hubs & rural areas), minority / woman / veteran owned companies, or even certain industries

(like Cybersecurity or Clean Tech) that was being prioritized by the current government as important to national security or prosperity.
    - **Make it a small life-time credit:** If you want to limit the blowback that this only "benefits the rich" and/or really encourage net new angel investors, than this should be a credit that caps out pretty low ($25K). This way existing angels could easily use it BUT the net effect is that it would really be most useful for startups like us to be able to bring in net new investors that otherwise may be too nervous to invest in that "friends and family" round.
    - **Incentive Corporate VC investments**: While we don't want to incentivize VC firms with this credit (I think they're doing fine) we should continue incentivizing operating companies to spend on Venture Investment into startups as a way to further spur R&D."

Federal Grants for Technology

- "Semi similar to what the Feds do with the SBIR program, they could provide additional grants to those "startup qualified companies" to build their products. Nebraska has an **amazing** (honestly best in the country program) for this called the Prototype Grant. This program matches 2 grant dollars to 1 "investment" dollar and has been used by pretty much every startup in Nebraska to dramatically increase their product budget without being diluted. The other key with this program is that it has to be spent on developers in Nebraska - so this type of program would continue encouraging keeping jobs here vs offshoring them." Andrew Prystai, Event Vesta

Affordable Care Act Options

- "Additional ACA credits for qualified "startup" business founders to help mitigate healthcare costs. In practice this would also likely encourage older / woman founders to startup since often the need for healthcare is higher for those two types of founders." Andrew Prystai, Event Vesta

Student Loan Burden

- "Student loan forgiveness for startup founders (ideally by including them in the 10 year public forgiveness categories)." Andrew Prystai, Event Vesta

Equitable Access to Capital

- "The access to capital should address various stages as opposed to a broad stroke to provide access to capital. It's not going to be equitable in any way shape or form. Here are the key stages of the entrepreneurship journey and how we can work to address in a more targeted and purposeful way to drive growth in our entrepreneurial companies.
    - Personal/ Friends and Family Capital - When first launching a startup, finding the initial capital can almost feel impossible, especially for underrepresented entrepreneurs. If not for personal capital or friends/family capital, most have to turn

to equity capital from angel investors or venture capitalists or crowdfunding. Once again, because of the significant racial and gender income/wealth gaps, diverse entrepreneurs are significantly limited to friends and family capital vs their peers. This is a major barrier at this stage. Usually looking to get access to $25K-$100K in Friends and family.

- Pre-Seed - is a round of equity investment capital from angel investors, pre-seed venture capital firms and/or startup accelerator programs. A pre-seed round generally allows a founding team to find product-market fit, hire early employees, and test go-to-market models. Range of Pre-Seed is typically $150K- $3.5M per company, with average valuation of $6M.
- Seed - is a round of equity investment capital from angel investors, pre-seed venture capital firms and/or startup accelerator programs. A seed round generally allows a founding team to drive significant business and team growth. Range of Seed is typically $1.5M-5.5M per company. The estimated average company valuation at this stage is $15M. Imagine, if we can increase the number of companies that get to this stage across the board, how we can generate greater wealth within the innovation economy for young startup businesses. Again, in particular for underrepresented founders."
- "These 3 early stages of funding are underfunded in the market, especially for underrepresented founder groups and represent a significant opportunity for the SEC to provide direct and intentional support. It is estimated that 70% of underrepresented founded ventures are at the Seed stage or earlier. By partnering with entrepreneur support organizations (accelerators, etc), the SEC can provide greater and more targeted access to capital at these early stages. According to CB Insights, 38% of startups fail due to money running out or failure to get access to capital needed. It is estimated that this number is almost double for underrepresented founders. By investing in the early stages we build a stronger pipeline of employer based tech companies that can potentially go public or experience an exit via a merger/acquisition. SEC can invest in pre-seed focused funds, invest with accelerators, or in equity crowdfunding platforms focused at this early stage. A great way to do this is through accelerators that focus on underrepresented founders, like DivInc, where they serve 40 companies a year through their 3 month accelerator and then through their portfolio program continue to help the founders grow their companies over the next 12-18 months after they complete the accelerator. With this model, DivInc is not only developing a pipeline of strong companies, but they are de-risking investments into companies because they prepare them for their next stages of successful growth. DivInc has a minimum of 2 years of due diligence insight on these companies and can make high return investments. As DivInc expands to other cities it plans to generate 200 companies per year through its accelerator. In collaboration with other accelerators,

they can generate a strong pipeline of 500+ companies per year ready for early stage investments." Preston James, DivInc

- "SEC can directly train or partner with entrepreneur support organizations like DivInc /universities/VC firms to train more people to become venture capitalists, especially targeted underrepresented/BIPOC people and women. In addition, SEC can invest in BIPOC emerging fund managers who focus on various stages of investment with a target of ensuring that 50% of the new funds are led by people of color and women. Most BIPOC venture capital firms provide venture fellow internships and hire BIPOC apprentices to build a large talent pool of VC talent." Preston James, DivInc

Startup Exits

- "I would also recommend that with the same focus on IPOs, they facilitate or develop mechanisms that enable more merger and acquisition of private startup companies that will not IPO. I would also recommend that there is a target percentage of merger and acquisitions that we want to facilitate. I think we can put incentives in place that encourage merger and acquisition or at least support merger and acquisition in a favorable way for companies." Preston James, DivInc