

Governor offers startups a boost, execs say

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Research Triangle Park, N.C. — Two executives on different sides of the financial fence in dealing with startups are supporting Gov. Beverly Perdue's budget proposals to boost small businesses in North Carolina.

A financial advisor and the chief executive officer of a medical technology startup believe that a "Founder's Credit" for entrepreneurs and investors makes economic sense for North Carolina. They also like other ideas Perdue announced in a speech Thursday. She will spell them out in more detail next week.

"I think we will see many structural ideas around incentives in this area and all are welcome," said David Gilroy of Scale Finance.

"As you know, it is nearly impossible to build a new company – so much has to go right for a long period of time and Mother Market is ruthlessly Darwinian," he added. "Improving the economic rewards for success can only stimulate the extraordinary risk-taking that is essential."

Scale Finance, which operates across North Carolina, offers services to startups as well as more established firms seeking exits through mergers and acquisitions or wanting to raise more money. Given the current economy, Gilroy said a proposed change in taxes on investments by founders and others, such as wealthy investors known as "angels," could spur more deals.

"Hopefully, we will see similar incentives to improve the economics in venture capital which many people think suffers from a broken model right now," he told Local Tech Wire.

"As you know, for 11 years now more capital has gone into this asset class than has come out. That is a long time. Many professionals who have been in the business for a decade have never seen a dollar of carried interest. And funds continue to die every year.

"If you do a careful count, you will realize that there were 22 institutional or quasi-institutional (meaning organized Angel Groups) VC firms in North Carolina investing at the peak nearly a decade ago," he added. "Six remain active today and that number may well go down. It is nearly impossible in today's environment to imagine it going up."

Taxes on profits and carried interest, or shares of profits earned by private equity firms, have been a hot issue for the past two years in Washington, D.C. President Obama has proposed changes in the federal tax code. The National Venture Capital Association and other groups have lobbied against changes in carried interest taxation. However, the NVCA has yet to take a stand on Obama's proposed changes. A spokesperson for the NVCA told LTW this week that it was "still early in the process" and the NVCA would not comment.

From one executive's point of view, however, what North Carolina Gov. Bev Perdue hinted at in

her speech about a “Founder’s Credit” made sense.

"Governor Perdue's proposal is innovative and timely to help keep capital flowing into our young companies," said Peyton Anderson of medical device firm Affinergy. "Today's macro economy makes it harder for young companies to get seed funding - so an innovative idea like this is critical to offset that trend.

“I hope she'll also work to expand the SBIR match program because it directly creates new jobs,” he added. “I applaud her visionary leadership on these issues.”

Perdue’s office outlined several proposals that are designed to help small businesses and entrepreneurial startups, including \$2 million to match federal Small Business Innovation and Research grants:

- **Small Business Tax Relief:** Businesses with profits less than \$100,000 will be able to exempt the first \$25,000 of net income from state tax. Businesses with profits between \$100,000 and \$200,000 will exempt the first \$15,000.
- **Jobs Now initiative:** More than \$17 million in community college and vocational education courses and programs focused on job training and preparing students for new 21st century careers.
- **One NC Small Business Fund:** \$2 million for small companies to match federal innovation grants.
- **Founder’s Credit:** Establish a Founder’s Credit, which will exclude initial stock investments in certain North Carolina start-up companies from capital gains. This will encourage innovation and entrepreneurship.
- **Green Business Fund:** \$5 million for the Green Business Fund to encourage the growth of North Carolina businesses as we seek to use fuel and other natural resources more wisely and effectively.
- **Defense and Aerospace:** \$3 million investment for expanding North Carolina’s defense and aerospace industry to create jobs.