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Missouri contemplates tax breaks for angel investors

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Special to The Star

The angels who jump-started Kirk Hasenzahl and Matt Angell's company back in 2010 didn't come from Missouri. They came from Kansas, which offers tax credits to "angel investors," the people who invest in startups in their earliest stages.

And that, says Hasenzahl, is part of the reason the two men stayed in Kansas to start their business.

Bills pending in the General Assembly would establish a similar program in Missouri intended to increase the amount of angel capital for startup businesses. The House passed one version of the bill 114-36 Thursday after legislators amended a provision to ensure none of the tax credits go toward abortion services.

Hasenzahl and Angell, founders of RareWire, long aspired to move their business to Kansas City. Hasenzahl said he pictured their new startup's home in the Crossroads district.

But they concluded Kansas, where they both lived, was a more attractive place to start, in part because of its angel tax credit program.

Then, a year in, they moved the business to Missouri to take advantage of the state's payroll tax incentives for creating jobs, Hasenzahl said.

Bills introduced by Sen. Jolie Justus, a Kansas City Democrat, and Rep. Noel Torpey, an Independence Republican, have been backed by the Missouri Chamber of Commerce and Industry, Mayor Sly James and the Economic Development Corporation of Kansas City.

The measures authorize tax credits for 50 percent of an angel investor's investment. The program is expected to cost the state up to \$6 million a year in revenue.

Justus said the state needs a more "diverse portfolio of tax credits."

"I would like to have something in there that is focused on entrepreneurship and the early stage of ... the high-tech, biotech industry," she said. "Five of our eight bordering states already have this tool."

For startups such as RareWire, having those extra incentives was attractive.

"It just made it way easier" for angel investors to risk their money on the company, Hasenzahl said.

This week, the bill was amended by anti-abortion forces. Rep. Chrissy Sommer, a St. Charles Republican, amended the bill to bar applying the tax credits to anything "that involves abortion services, human cloning or prohibited human research."

The legislation is likely to face opposition in the Senate. Some Republicans have demanded reductions in existing tax credit programs before creating any new tax breaks.

Sen. Will Kraus, a Lee's Summit Republican, said Missouri hasn't reformed existing tax credits that hurt state revenues, specifically credits for investments in historic buildings and low-income housing.

"We have to reform the other ones before we'll add new ones," he said.

Sen. Brad Lager, a Savannah Republican, opposes the bills.

"I don't see the benefit for the taxpayer," he said.

Lager said private investment should be driven by market forces.

"If an idea has the merits, someone in the private sector will invest," he said.

Dane Stangler, vice president of research and policy at the Ewing Marion Kauffman Foundation, sees little evidence that angel tax credits work.

Stangler said he has come across Kansas investors who were unaware of the angel credits available to them.

Yet Jake Halliday, executive director of the Missouri Innovation Center, which aims to translate research into new technology, said the lack of tax credits in the state runs the risk of Missouri investors taking their money to other states such as Kansas.

Marianne Hudson, the executive director of the Angel Capital Association, said Wisconsin saw strong growth after giving tax credits to angel investors. She said about half the states offer the credits.

“It’s an important incentive for a high-quality investment,” she said.