

Financing Entrepreneurship through the Tax Code: Angel Investor Tax Credits

Sabrina T. Howell & Filippo Mezzanotti

SHARE      

WORKING PAPER 26486

DOI 10.3386/w26486

ISSUE DATE November 2019

A central issue in public finance is the tradeoff between maintaining tax revenues and using the tax code to incentivize particular economic activities. One important dimension of this tradeoff is whether incentive policies are used in practice as policymakers intend. This paper examines one particular tax program that many U.S. states use to stimulate entrepreneurship. Specifically, angel tax credits subsidize wealthy individuals' investments in startups. This paper finds that these programs have no measurable effect on local entrepreneurial activity or beneficiary company outcomes, despite increasing some measures of angel activity. This appears to reflect the programs failing to screen out financially unconstrained firms and often being used for tax arbitrage. Over 90 percent of beneficiary companies fall into at least one of three categories: a corporate insider received a tax credit; the company previously raised external equity; or the company is not in a high-growth sector. Notably, at least 33 percent of beneficiary companies include an investor receiving a tax credit who is an executive at the company.

This working paper has been superseded by the authors' later work "Investor Tax Credits and Entrepreneurship: Evidence from U.S. States," [NBER working paper, no. 27751](#). Please use that working paper for citation.

Download a PDF

[Information on access](#)

Acknowledgements and Disclosures



Download Citation



Related

TOPICS

Financial Economics
Financial Markets
Financial Institutions
Corporate Finance
Development and Growth
Innovation and R&D

PROGRAMS

Corporate Finance
Productivity, Innovation, and Entrepreneurship

WORKING GROUPS

Entrepreneurship

CONFERENCES

Taxation of Business Income, Fall 2019

More from NBER

In addition to [working papers](#), the NBER disseminates affiliates' latest findings through a range of free periodicals — the [NBER Reporter](#), the [NBER Digest](#), the [Bulletin on Retirement and Disability](#), the [Bulletin on Health](#), and the [Bulletin on Entrepreneurship](#) — as well as online conference reports, video lectures, and interviews.



16th Annual Martin Feldstein Lecture:

Lessons for Economists from the Pandemic

Cecilia E. Rouse, The Brookings Institution
and Princeton University
July 22, 2024

2024, 16th Annual Feldstein Lecture, Cecilia E. Rouse, "Lessons for Economists from the Pandemic"

FELDSTEIN LECTURE

PRESENTER: [CECILIA E. ROUSE](#)

Cecilia Rouse, president of the Brookings Institution and a professor at Princeton University, who chaired the Council...



Methods Lectures, Summer Institute 2024:

Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning

Susan Athey, Stanford University and NBER
July 25, 2024

2024 Methods Lecture, Susan Athey, "Analysis and Design of Multi-Armed Bandit Experiments and Policy Learning"

METHODS LECTURES

PRESENTER: [SUSAN ATHEY](#)

Background Materials: backgroundAthey, Susan, Undral Byambadalai, Vitor Hadad, Sanath Kumar Krishnamurthy, Weiwen Leung...



Economics of Social Security Panel Discussion

Earnings Inequality and Payroll Tax Revenues

Karen Dynan, Harvard University
Karen Glenn, Social Security Administration
Stephen Goss, Social Security Administration
Fatih Guvenen, University of Minnesota and NBER
James Pearce, US Congressional Budget Office
NBER Summer Institute, July 24, 2024

2024, Economics of Social Security Panel, "Earnings Inequality and Payroll Tax Revenues"

National Bureau of Economic Research

[Contact Us](#)

1050 Massachusetts Avenue
Cambridge, MA 02138
[617-868-3900](tel:617-868-3900)
info@nber.org
webaccessibility@nber.org

[HOMEPAGE](#)

[Accessibility Policy](#)

[Diversity Policy](#)

[Privacy Policy](#)

FOLLOW

