





< Working Papers

# **Financing Entrepreneurship** through the Tax Code: Angel **Investor Tax Credits**

Sabrina T. Howell & Filippo Mezzanotti















**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This working paper has been superseded by the authors' later work "Investor Tax Credits and Entrepreneurship: Evidence from U.S. States," <u>NBER working paper, no. 27751</u>. Please use that working paper for citation.

Download a PDF

Information on access

**Citation and Citation Data** 

## 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 the 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 Health, and the Bulletin on Entrepreneurship — as well as online conference reports, video lectures, and interviews.



Martin Feldstein Lecture, Summer Institute 2025 **The Fiscal Future** 

N. Gregory Mankiw, Harvard University and NBER July 10, 2025

### 2025, 17th Annual Feldstein Lecture, N. Gregory Mankiw," The Fiscal Future"

FELDSTEIN LECTURE

PRESENTER: N. GREGORY MANKIW

N. Gregory Mankiw, Robert M. Beren Professor of Economics at Harvard University, presented the 2025 Martin Feldstein...





# Methods Lecture, Summer Institute 2025 Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices

Raj Chetty, Harvard University and NBER Kosuke Imai, Harvard University July 24, 2025

# <u>2025, Methods Lecture, Raj Chetty and Kosuke Imai, "Uncovering Causal Mechanisms: Mediation Analysis and Surrogate Indices"</u>

**METHODS LECTURES** 

PRESENTERS: RAJ CHETTY & KOSUKE IMAI

SlidesBackground materials on mediationImai, Kosuke, Dustin Tingley, and Teppei Yamamoto. (2013). "Experimental Designs...



International Trade and Macroeconomics, Summer Institute 2025

## Panel on The Future of the Global Economy

Oleg Itskhoki, Harvard University and NBER Paul Krugman, City University of New York and NBER Linda Tesar, University of Michigan and NBER July 8, 2025 PRESENTERS: OLEG ITSKHOKI, PAUL R. KRUGMAN & LINDA TESAR

Supported by the Alfred P. Sloan Foundation grant #G-2023-19633, the Lynde and Harry Bradley Foundation grant #20251294...

#### National Bureau of Economic Research

Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

HOMEPAGE

Accessibility Policy
Diversity Policy
Privacy Policy

**FOLLOW** 











© 2025 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.