



Briefing for Standing Committee on Industry, Science and Technology
By the National Angel Organization
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1.0 EXECUTIVE SUMMARY

1.1 Purpose of this briefing

This briefing for the Standing Committee on Industry, Science and Technology outlines the role of Angels in the Canadian capital and commercialization “eco-system”, summarizes the responsibility of NAO to promote Angels in their role, and proposes a number of policies for consideration by the Standing Committee.

These policies involve approaches that have been successfully implemented in many jurisdictions, as outlined in Appendix A. They would stimulate the supply of Angel capital, and thereby help fulfill the commitment made in the 2007 Federal Science and Technology Strategy to explore new and different approaches that stimulate the supply of capital for emerging companies. They would also serve to augment existing Federal venture capital programs, such as those run by the Business Development Bank of Canada (BDC) and Sustainable Development Technology Canada (SDTC).

1.2 What are Angel investors?

Angel investors are high-net-worth individuals, often entrepreneurs who have successfully founded and/or operated one or more companies themselves. They typically **mentor** and **invest their own personal capital** in seed- and early-stage companies, most often prior to the commercialization stage of their innovation. They are the oldest, largest, and most often used source of outside funds for entrepreneurial firms.

1.3 Why are Angel investors important to Canada?

Angel investors in Canada, individually and via formal Angel groups, invest approximately \$3 billion annually in seed- and early-stage¹ companies, in contrast to the estimated \$1.6 billion invested in Canada annually by venture-capital firms, much of which goes to companies in later, less risky stages of development.

Angels are key to the commercialization of innovation by small- and medium-size companies which, in turn, are the primary source of employment growth in Canada.

1.4 What is the National Angel Organization (NAO)?

The National Angel Organization is a grassroots industry association representing Angel investors across Canada. It includes over 30 formal Angel groups and 4,000 individual Angel investors, and has counterparts in the US, EU, Australia and elsewhere. It was founded in 2002 as a non-profit corporation to provide Angel investors a secure environment to network and learn from their peers, as well as the opportunity to be heard collectively on national issues. Since that time, the NAO has expanded its educational role, included Angel groups in membership, and been invited into formal advisory roles by several government and non-profit organizations.

For more information on NAO’s mandate, see Section 3 below.

1.5 Why do Canada’s Angels need new public policies?

According to the Task Force on Early Stage Funding, our country faces an estimated \$5 billion annual funding gap, sometimes known as the “Valley of Death”², in the financing of early-stage companies. In order to bridge this pre-commercialization gap, significant amounts of capital must be attracted to the commercialization of innovation.

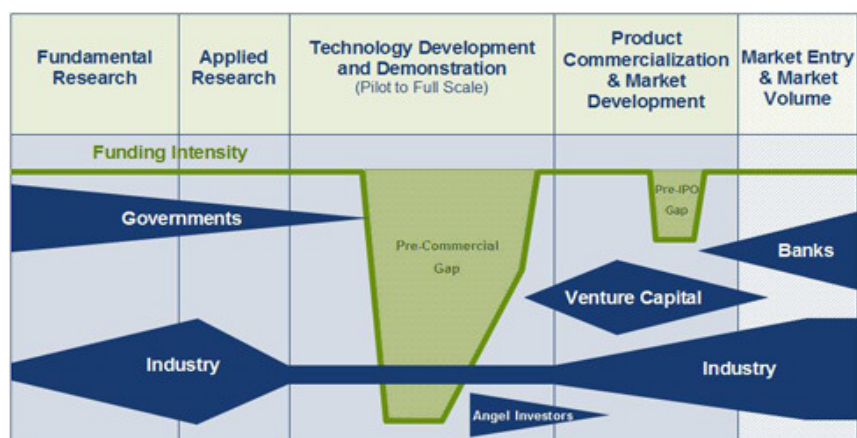
As an explanation, the 2002 Global Entrepreneurship Monitor report showed that in the US there are 53% more active Angel investors per capita than in Canada, demonstrating a compelling need for additional support for the development of the Angel community in Canada.

At the same time, effective public policies that support the commercialization of innovation are being implemented around the world, pointing the way to similar success here in Canada. We therefore propose, as detailed herein, that the Government of Canada support an Investment & Productivity Tax Credit, an Angel co-investment fund, a National Angel Network Program, and International Angel Network Outreach.

2.0 MARKET FAILURE IN THE CANADIAN CAPITAL ECOSYSTEM

2.1 Stages in the life of innovation

Innovation, the process of creating new products and services, goes through successive stages of development, characterized by differences in the intensity and risk tolerance of funding required, and changes in the sources of such funding. As the chart below, sourced from Sustainable Development Technology Canada, indicates, governments shoulder the burden of fundamental research funding, while industry supports more applied research and market-entry research. Venture capital supports the early commercialization and market development stage. All these leave a significant “pre-commercialization gap” in capitalization, at the risky yet crucial stage of technology development and demonstration. This is where angel investors come in.



2.2 The unique and successful role of angel investment in capitalizing innovation

Angel investors step in where venture capitalists fear to tread – at the point where a fundamental discovery may have been applied in the laboratory or workshop, but not yet fully proven to have commercial potential. Angel investments in Canada facilitate the transformation of companies with initial commercial traction among early adopters of their innovations into successful businesses that public institutions, VCs, public investors, and banks can finance.

Angels can and do make acceptable returns from their portfolios of start-up companies and have become the de-facto commercialization engine of Canada.

A survey by NAO in partnership with the Angel Capital Association of America discovered that currently formal Angel groups--Angels who are banding together with some discipline and doing due diligence and deal screening--are enjoying about a 27.5%³ internal rate of return, which is one of the things encouraging people to form formal angel groups.

By contrast, the venture capital industry (with the exception of BDC) has all but abandoned pre-commercialization, seed and even Series-A financing stages for small- and medium-size enterprises. A tiny percentage of Canadian companies have been started with venture capital. They simply have not been able to make money in early-stage investments.

2.3 The failure of venture capital

Overall, venture capital investment in Canada has increased by 30% to \$1.6 billion, as at September, 2007, compared with the \$1.2 billion invested in the previous year. Despite this increase, the majority of financings have trended toward follow-on financings, with approximately 78% of all disclosed financings considered follow-on compared with 22% considered new during the same period. As at the end of the third quarter of 2007, late-stage companies received an approximate average of 69% of all investment dollars, further identifying a trend away from investments being made in early-stage, more high-risk, companies. (Q3 2007 Venture Capital Report) **In other words, VCs are increasingly sticking with companies they already know, and providing little capital to new high-potential ventures.**

There is a shortage of capital at every stage of business development in Canada. Canadian entrepreneurs receive much less capital funding than their U.S. counterparts, who are typically backed by approximately 2.2X the amount of financing at each round of development. Of even greater concern is the fact that new fundraising activity remains weak – a sign that there is not sufficient funding being raised to invest in new ventures. At the end of the third quarter of 2007, funding commitments totaled \$852 million, down 37% from the \$1.3 billion committed during the same period of 2006.

3.0 THE NATIONAL ANGEL ORGANIZATION (NAO)

3.1 The Vision of NAO

NAO envisions the further development of an entrepreneurial culture in Canada where more companies become investor-ready, and more individual investors band together while adopting standards and best practices to maximize the potential scale, effectiveness and returns of their investments.

The realization of this vision would guarantee Canada’s international competitiveness and prosperity well into the future.

3.2 The Mission of NAO

The mission of the National Angel Organization is to increase the quantity, quality and success of Angel investments in Canada, thus creating a greater pool of capital for the use of innovative start-up companies for national benefit.

NAO is dedicated to increasing the effectiveness and activity of Angel capital in Canada, so as to:

- Commercialize Canada’s leading-edge technologies;
- Promote world-class excellence in our high-potential, emerging growth companies through mentorship, networks and financing; and
- Develop the regional, national and international partnerships necessary to attract foreign direct investment into Canadian firms, via co-investment mechanisms.

3.3 The Services of NAO

The National Angel Organization:

1. Produces best-practices for Angel investment and Angel group formation, which all Angel groups in Canada have agreed to follow. Canada is the first country to have adopted a national standard for Angel investing.
2. Organizes communication between governments, researchers, entrepreneurs and investors.
3. Hosts workshops on best practices for Angel investors and their regional or sectoral groups.
4. Encourages the formation of Angel groups by regions and by sectors, as a means of overcoming barriers to investment in early-stage companies by accredited investors.
5. Mentors and organizes “boot-camps” for the executives of seed- and early-stage companies in order to improve their readiness for Angel investment.
6. Facilitates cross-jurisdictional co-investment in opportunities, via increased investor communication and both national and international networking among Angel investor groups, to bolster the possible scope of individual start-ups.

4.0 PUBLIC POLICIES TO BRIDGE THE PRE-COMMERCIALIZATION GAP

4.1 Why an Angel Capital Shortage Merits a Public Policy Response

Why does the shortage of capital, particularly at the earliest stages of business development when Angels fulfil capital needs, merit public policy development?

First, while large investments in research have been made by all levels of government in Canada, the bottleneck holding back the benefits of these investments has been a shortage of coordinated capital for commercialization. Properly incenting Angels can help overcome this bottleneck.

Second, Canada’s small market size and geographic dispersion constitute impediments particular to our country, which are not faced by other jurisdictions with which Canada competes economically.

Third, Canada’s business culture is not yet as open to risk and innovation as other jurisdictions with which Canada competes economically, owing to our historic focus on primary industry. However, it is now a matter of public policy to transcend this focus, so we may compete globally with other jurisdictions focusing on the addition of value to economic product. Indeed, the commercialization of innovation is one of Canada’s only truly sustainable natural resources.

Finally, other jurisdictions with which Canada competes economically, including the United States, have decided to address similar challenges with public policy solutions, as outlined in Appendix A.

4.2 Public Policy Options

4.2.1 An Innovation and Productivity Tax Credit

NAO proposes that the Federal Government co-invest with the provinces in an Innovation and Productivity Tax Credit (“IPTC”). The IPTC is based on successful programs in 18 US states and five Canadian provinces (soon to be six with other provinces currently reviewing this program).

Currently British Columbia, the Atlantic Provinces and Manitoba are “sold out” of IPTC funding by mid-year or earlier. The Federal Government should match the provinces and thus double the commercialization capital available to SMEs. 50% of the tax credit would be funded by the Federal Government and 50% by participating provinces.

Studies have shown that government investment is repaid to the taxpayer within 2 to 3 years as young companies develop further in size and sustain additional business growth by raising additional new capital, including venture capital.

This Innovation and Productivity Tax Credit (“IPTC”) would also be similar to the United Kingdom’s successful ten-year-old Enterprise Investment Scheme and B.C.’s Small Business Venture Capital Program. The IPTC would encourage more Canadians to invest directly in start-up and early-stage companies as individual investors, a.k.a. Angel investors.

4.2.2 National Angel Co-investment Fund

NAO proposes that the Federal Government direct \$100 million of seed and early-stage funding towards co-investment via eligible Angel groups and sidecar funds through a fund-of-funds structure. Eligibility for co-investment would be contingent on the due diligence research performed by each Angel group. Once approved, any investment in excess of \$50,000 made by an Angel group with more than three Angel members investing would be automatically matched by this fund subject to review by a panel, the majority of which represent the Government of Canada or its appointees and Angel investors. The panel may veto investment opportunities which it feels do not meet the objectives of the Government.

4.2.3 National Angel Network Program

As exemplified by NAO-Ontario’s Angel Network Program, begun by the Ontario Ministry of Research and Innovation working with the National Angel Organization in 2007, NAO proposes the development of a National Angel Network Program. This would be accomplished with the support of agencies for regional economic development in line with their stated missions.

As in Ontario, the National Angel Network Program would flow-through government support for the formation, operation and marketing of regional and sectoral Angel investment groups. NAO-Ontario has established eight new Angel groups throughout the Province of Ontario in the last six months, mobilizing an estimated \$30 million of Angel capital over the next four years. This represents an estimated leverage of \$12 invested by Angels to each \$1 invested by the Government of Ontario – a very effective private-public partnership.

Regional and sectoral Angel group summits for co-investment and the sharing of ever-improving best practices would also be facilitated through this framework. It should also be possible to thus extend industry sector analysis and diagnostic capability to the level of seed and start-up enterprises.

Seed and early-stage financing is one of the most inefficient and imperfect capital markets in Canada. Informal and Angel investors are hard to find, and investment information is insufficient. Establishing facilitated Angel groups throughout Canada will effectively solve the problem of access to risk capital in the seed and early stages of financing.

NAO has refined the process of Angel group creation and established that there is space for many more regional and sectoral Angel groups throughout Canada. Thus NAO recommends that the Government of Canada catalyze the formation of additional Angel groups throughout the country. This would complement and supplement initial investments made by provinces like Ontario and emulate the best practices of other countries’ commercialization programs.

4.2.4 International Angel Network Outreach

As explored at the recent convention in San Diego, NAO proposes the development of a program to facilitate international Angel network outreach.

This International Angel Network Outreach would facilitate cross-border co-investment mechanisms, with their particular inter-cultural considerations, as well as the sharing of ever-improving best practices internationally.

Crucially, it would serve as an entirely new and potent means of securing foreign direct investment in Canada.

APPENDIX A – PUBLIC POLICIES IN OTHER JURISDICTIONS

A.1 Canada

Flow-through shares are an example of successful risk mitigation through tax instruments in the resource industry, from which lessons can be learned that apply to the commercialization of innovation. They are a prime example of a program that helps attract investment capital and is working effectively.

In 2006, over \$1.1 billion was invested in new, publicly listed, mining and oil and gas TSX Venture Exchange flow-through shares. Flow-through shares enable a taxpayer to reduce their income otherwise payable through the deduction of Canadian Exploration Expenses (CEE), Canadian Development Expenses (CDE) and Canadian Renewable and Conservation Expenses (CRCE).

Flow-through shares are invested primarily in the provinces of British Columbia (48% of the country total) and Alberta (28% of the country total.) Provinces like Ontario receive less than 16% of the investment funds. It was thus noted that eastern Canadian provincial treasuries are indirectly subsidizing other provinces; often for the benefit of industrial sectors which may be less sustainable in their development and could thus in fact be complicit in climate change.

Lessons Learned

- Strong investment returns attract large capital flows.
- Tax incentives that reduce risk and improve return on capital attract investment capital.
- Gap-free financing sequences (“food chains”) in industrial sectors attract early-stage capital as investors know there will be well-defined exits that reduce early-stage risk levels.
- Lessons learned in other capital-intensive sectors can be applied to other sectors and promote sustainable development.

A.2 United States of America

In the United States, tax credits have proven to be a major incentive for high net-worth individuals to invest in early-stage companies. It is estimated that the U.S. has close to three million Angels, investing more than \$50 billion in entrepreneurial companies each year.

Angels fund 60% of all new technology firms in the U.S. It is clear that the U.S. business Angel network is growing and will most likely double within the next decade. One of the prime catalysts of this growth is tax incentives provided to Angel investors.

The following chart provides a sample of this activity:

State	Tax Credit	Rate (%)	Requirements	Span (years)	Cap	Max	Carry (years)	Claims
Arizona	Angel Investment Tax Credit	30	Not available to those who already hold > 30% equity	3	\$20M over 5 years	\$250k aggregate investment per investor	3	Effective July 1, 2006
Hawaii	High Technology Investment Tax Credit	100	Research must be at least 50% of company activity	5	None	\$2M credit per business per year	0	1999 to 2002, \$36M in 887 claims with \$114.4M outstanding
Indiana	Venture Capital Investment Tax Credit	20	Qualified business	1	\$12.5M per year	\$500k per year per company	5	Not yet recorded
Iowa	Qualified Business Investment and Seed Capital Tax Credit	20	Credit cannot be claimed until 3 years after investment	1	\$10M over 3 years	\$50k credit per investment; 5 investments per year	5	\$1.8M claimed thru June 2005 since inception in 2002
Kansas	Angel Investor Tax Credit	50	Company < \$5M gross revenue and <5 years of operations	1	\$2M per year and \$20M over 12 years	\$50k investment; 5 investments per year	0 Transferable	Began January 1, 2006
Louisiana	Angel Investor Tax Credit	50	More than 50% of company sales are outside of the state	5	\$5M per year	\$1M investment per year per business; and \$2M aggregate per business	11	Began January 1, 2005
Maine	Seed Capital Tax Credit	40	Investment at risk for 5 years	4	\$20M aggregate	50% total liability; \$200k credit per investment; aggregate \$5M per business	15	1992-02 \$6.7M claimed at 30 %; 2003-05 \$5.4M claimed at 40 %
New Jersey	High-Technology Investment Tax Credit	10	Company has <225 jobs, 75% of which are in the state	1	None	\$1M credit per company; \$500k credit per investor	15	Not available
New Mexico	Angel Investment Credit	25	High-tech or manufacturing; <100 employees; <\$5M gross revenue	1	\$750,000	25 % up to \$25,000 per company and 2 companies per year	3	Passed 2007
North Carolina	Qualified Business Investment Tax Credit	25	Company gross revenues < \$5M in previous fiscal year	1	\$6M per year; increased to \$7M per year in 2004	\$50k credit per year	5	\$6M per year claimed in 2002 and 2003
North Dakota	Seed Capital Investment Tax Credit	45	Qualified company is principally in state and engaged in innovation or R&D	3	\$2.5M per year	\$250k investment per year per investor; \$500k investment per business	4	2002 to 2005, \$34M invested in 1088 companies by 768 claimants, \$9M in credits
Ohio	Technology Investment Tax Credit	25	Business has < \$2.5M in revenue	1	\$20M aggregate	investment <= \$250k per year; \$1.5M investment per company	15	Estimated \$1.3M per year
Oregon	University Venture Capital Funds	60		3	\$14M aggregate	\$50k credit per year	None	Begins in 2006
Vermont	Seed Capital Fund	10	50% firm revenue from out of state	1	\$2M aggregate	50% of total liability	4	Began 2005
Virginia	Qualified Business Investment Credit	50	Must hold equity for 3 years	1	\$3M per year prorated	\$50k per investor annually	15	Over 5 years, \$7.3M credited to 863 claims
West Virginia	High Growth Business Investment Tax Credit	50	Maintain investment for 5 years	1	\$2M per year for 5 years	\$50k per investor; \$1M investment per company	4	Began July 1, 2005
Wisconsin	Angel Investor Tax Credit	25	Up to \$500k in equity purchases	2	\$3M per year; \$30M aggregate	\$125k credit per investment	0	\$3M in 2005; 290 investors

A.3 The United Kingdom of Great Britain and Northern Ireland

Through the Enterprise Investment Scheme (EIS) the United Kingdom has pioneered assistance to small, high-risk companies who seek financing, by offering a range of tax incentives to investors who purchase new shares in such companies.

Qualified companies, as per the program guidelines set by Her Majesty’s Revenue and Customs, can attract investors through the use of the following tax relief programs available:

Income Tax Relief

- Availability: Individuals only, who subscribe for shares in an EIS qualifying company.
- Minimum investment: £500 worth of shares in any one company in any one tax year.
- Relief: 20% of the cost of the shares, to be set against the individual’s income tax liability for the tax year in which the investment was made.
- Maximum: £400,000 invested in such shares, giving a maximum tax reduction in any one year of £80,000 providing you have sufficient income tax liability to cover it.

Capital Gains Tax Exemption

- If you have received income tax relief on the cost of the shares, and the shares are disposed of after a set period, any gain is free from capital gains tax.

Loss Relief

- If the shares are disposed of at a loss, you can elect that the amount of the loss, less any income tax relief given, can be set against income of the year in which they were disposed of, or any income of the previous year, instead of being set off against any capital gains.

Capital Gains Tax Deferral Relief

- Availability: Individuals and trustees of certain trusts.
- The payment of tax on a capital gain can be deferred where the gain is invested in shares of an EIS qualifying company. The gain can arise from the disposal of any kind of asset, but the investment must be made up to one year before or three years after the gain arose.
- No minimum or maximum amounts for deferral.
- There is no minimum period for which the shares must be held.

The UK Government has found this program to be highly effective in attracting capital to early-stage high-risk companies. It is estimated that 52-62% of the amounts invested would not have been advanced without the EIS scheme.

A.4 The Province of British Columbia

The Innovation and Productivity Tax Credit At Work

We are aware that most appeals for tax incentives are not adopted because governments are worried about abuses, the cost of administration, and the precedent it may set for other areas. Governments must see they are going to get something that they never had before.

In 1985, the Government of British Columbia began offering a tax credit program for retail investors to pool their risk capital into specific or multiple businesses. In early 2003, the program was modified to include direct investments into approved EBC's (Eligible Business Corporations). The credits are capped annually for government budget purposes and are focused on select industries.

The success of this program has been demonstrated by all traditional measurement tools:

- Increased number of jobs;
- Total new capital investment; and
- Diversity of investment in various regions of the province.

The BC experience has ultimately led to the creation of some very successful companies:

- ALI Technologies (life sciences);
- Aspreva Pharmaceuticals; and
- Redlen Technologies (semiconductors).

These companies would almost certainly not have existed without Angel investors, who were influenced by the BC tax incentive program. According to a Grant Thornton study, the program has a two-year payback based on the new jobs created and the additional income taxes (corporate and individual) paid. This result is echoed by the comprehensive study of the UK Enterprise Investment Scheme successfully operated for over 10 years.

BC Government officials are willing to share their structure, their data and their statistics to help create a national program that will assist all Canadians in all provinces.

APPENDIX B – DETAILS OF THE INNOVATION & PRODUCTIVITY TAX CREDIT

B.1 How the IPTC works

The IPTC would define eligible companies by simple size and type criteria as set out in Section B.4. Once a company was deemed eligible and allocated a specific tax credit allotment, individual investors could invest up to that amount in the eligible company. Upon making their investments investors would apply for a 30% refundable tax credit. The tax credit would be funded 50/50 by the Federal Government and participating provinces.

The compelling reasons for the IPTC are that it can:

- be used to cut taxes while generating proportionately more tax revenue;
- generate sustainable social returns through high quality job creation, regional development, product innovation – without increasing the tax burden;
- create net new investment for economic growth – including outside major financial centres;
- increase the chances of success for start up and early-stage companies by attracting more capital from more investors who also contribute expertise, skill and contacts;
- benefit high-growth and knowledge-based SMEs the most;
- be embraced by all participants in the risk capital sector and other sectors of the economy;
- avoid abuses, exemplified by the SRTC program in the 1980s;
- be administered relatively simple and cost-effectively; and
- be limited to a pre-determined budget amount.

B.2 Why the IPTC is necessary

For Canada to succeed in the highly competitive global market of the 21st century, it must create a steady stream of new and more innovative companies. New companies create net new jobs in new fields. Unfortunately, many new businesses do not get off the ground, or fail too soon, due to lack of capital. Sustainable Development Technology Canada has estimated a \$5 Billion funding gap is holding back the country’s economic development.

The most efficient way for government to encourage new businesses is by mobilizing Canada’s individual – or Angel – investors who bring ‘smart’ capital and increase companies’ competitiveness. Angel investors are most often successful serial entrepreneurs who have experience in “picking winners” and developing strategic direction. Since the money they invest is their own, they are particularly interested in guiding these companies to success.

In the United States individual investors fund 30 to 40 times as many entrepreneurial firms as the formal venture capital industry and invest three to five times more money. The 2002 Global Entrepreneurship Monitor (GEM) Canada study revealed that the US has 53% more Angel investors per capita than Canada (4.9% vs. 3.2%). The study’s authors found this surprising given the fact that Canada fared well in every other indicator of entrepreneurial activity. The lack of individual investors is a critical bottleneck in Canada’s commercialization strategy.

Canada’s capital markets for seed and early-stage funding are small, inefficient and imperfect at present. Canadian Angel investors are best suited to the early-stage environment, but their mechanisms for making these investments are underdeveloped. At the same time, banks, venture capital firms and BDC are structurally impeded from properly servicing this market. There is a critical need for government intervention.

B.3 Why the Capital-Gains Tax Exemption Doesn’t Promote Early-Stage Investment

Current government incentives for individuals to invest in early-stage companies are limited to capital gains tax relief. Since only a small number of early-stage companies make it to a liquidity event, and it usually takes more than seven years to do so, the capital gains tax benefit is significantly discounted by investors at the initial decision stage.

Generally, people are concerned about losing their money rather than excited about making more. In the absence of any special incentive, they will therefore invest more conservatively in later-stage and public companies, with limited benefit to the economy.

The advantage of a tax credit is that people have the incentive up front on the way into the investment rather than after the investment has run its course. The Innovation and Productivity Tax Credit would encourage earlier-stage, higher-risk investments by many more individuals.

B.4 Qualifying Companies

To be eligible to receive the IPTC, companies must be deemed qualified. The qualification criteria include:

1. The small business, together with its affiliates, has no more than 100 employees calculated in a prescribed manner;
2. Unless otherwise provided by regulation, at least 75% of the wages and salaries, determined in a prescribed manner, of the small business are or will be paid to employees who regularly report to work at operations located in Canada;
3. The small business is or will be substantially engaged, determined in the prescribed manner, in Canada in prescribed business activities;
4. The investment consists or will consist of:
 - (i) the direct acquisition from the small business of equity shares issued for the purpose of raising new equity capital;
 - (ii) the acquisition by the venture capital corporation of equity shares issued by the small business in prescribed circumstances under a prospectus, offering memorandum or other disclosure document;
 - (iii) the acquisition of equity shares of an affiliate of the small business directly from the affiliate, or;
 - (iv) the acquisition of prescribed limited partnership units.

5. The small business:

- (i) Must not be quoted or listed on any recognized stock exchange at the time the shares are issued. It can later become a quoted company without the investors losing IPTC, but only if there were no arrangements for it to become quoted in existence when the shares were issued.
- (ii) Must not be controlled by another company (or another company and any person connected with that company). Nor must there be any arrangements in existence for it to be controlled by another company at the time the shares are issued. However, where a company needs, for commercial reasons, to put a new holding company above itself and:
 - a. all shares in the old company are exchanged for shares of the same kind in the new holding company; and
 - b. various other conditions are met,the tax relief applicable to the old shares is effectively transferred to the new shares.
- (iii) May have subsidiaries, but if it does they must all be qualifying subsidiaries – i.e. the company has more than 50% of the ordinary share capital of the subsidiary, and it is not controlled (by other means) by another company. (If the IPTC beneficiary company has a property management subsidiary that must be at least a 90% subsidiary.)
- (iv) Must be a 'small company'. The measure of whether a company is 'small' is the Gross Assets Test. Gross Assets of the company – or of the whole group if it is the parent of a group – cannot exceed \$10 million immediately before any share issue and \$12 million immediately after.
- (v) Must have fewer than 50 full-time employees (or their equivalents) at the time of share issue.
- (vi) Can be either a company carrying on the qualifying trade, or the parent company of a trading group. The trade can be carried on either by the company issuing the shares or a subsidiary, but if it is carried on by a subsidiary, it must be at least a 90% subsidiary.

APPENDIX C – WHO SUPPORTS A CANADIAN IPTC?

In June of 2004, the Canadian Task Force on Early-stage Funding was struck, co-chaired by the Acting President of NRC and the Dean of UBC’s Sauder School of Business, with representation from all sectors of the private equity “ecosystem” – from governments and institutions to venture capitalists and individual investors. After extensive study, that group delivered its final recommendations in December 2004, which included strong endorsement of NAO’s IPTC proposal.

The Conference Board of Canada released a report and a recommendation to the Emerson Panel on Commercialization in April 2005. They also strongly recommended an IPTC-like tax credit.

Groups endorsing the Innovation and Productivity Tax Credit include:

- BC Technology Industries Assn (BC TIA)
- Brightspark Capital Partners
- Canadian Advanced Technology Alliance
- Canadian Task Force on Early-stage Funding
- Canadian Federation of Independent Business
- Conference Board of Canada
- Information Technology Association of Canada
- Foragen Technology Ventures Inc.
- Garage Technology Ventures Canada
- Kingston Angel Network
- MaRs Discovery District
- Ottawa Centre for Research & Innovation (OCRI)
- Primaxis Technology Ventures Inc.
- Petroleum Technology Alliance Canada
- Saskatchewan’s Minister’s Advisory Council on Information Technology
- Saskatchewan Advanced Technology Assn (SATA)
- Sustainable Development Technology Canada (SDTC)
- Trillium Medical Technology Association

As well, the IPTC is supported by the following active Angel groups in Canada:

- Agri-Technology Angels (Ontario)
- Alberta Deal Generator (Alberta)
- Angel Forum (British Columbia)
- Anges Quebec (Quebec)
- First Angel Network (Nova Scotia)
- Golden Horseshoe Angel Network (Ontario)
- Newfoundland and Labrador Angel Network (Newfoundland and Labrador)
- Okanagan Angel Network (British Columbia)
- Ottawa Angel Alliance (Ontario)
- Maple Leaf Angels (Ontario)

- Northern Ontario Enterprise Gateway (Ontario)
- Peterborough Region Angel Network (Ontario)
- Purple Angel (Ontario)
- Saskatchewan Angel Investor Network (Saskatchewan)
- Southwestern Ontario Angel Group (Ontario)
- Vancouver Angel Technology Network (British Columbia)
- Winnipeg Angel Organization (Manitoba)
- York Angel Investors Inc. (Ontario)

Newly developing Angel groups supporting the IPTC:

- Cleantech Angel Network (Ontario)
- Military Sector Angels (Ontario)
- Discovery Angels (Ontario)
- Eastern Lake Ontario (Ontario)
- Guelph Angels (Guelph Innovation) (Ontario)
- Kitchener-Waterloo Angels (Ontario)
- Lifesciences Angels (Ontario)
- Ryerson Enterprise Institute (Ontario)
- Wallaceburg-Chatham-Kent (Ontario)
- Windsor Angels (Ontario)

Endnotes

1. Equinox Management Consultants Ltd. Estimating Informal Investment in Canada. Prepared for Industry Canada's Small Business Policy Branch. Ottawa: Equinox Management Consultants Ltd., 2005.
2. "Valley of Death" - Defined as the funding shortage that occurs between the Research & Development stage of businesses' development (primarily funded by government or corporations) and the stage just before a new company is large enough to attract financing from banks, institutions, public investors or VCs.
3. "Returns to Angel Investors in Groups," – A report detailing the largest study on the financial returns of angel investors in North America, shows that angel investors participating in organized angel groups achieved an average 27 percent internal rate of return (IRR) on their investments.

This document was compiled with the assistance of Bryan Watson, James Black and Paul Connor of the National Angel Organization.