

ST. LOUIS POST-DISPATCH

Friday, January 18, 2008

Proposed tax credit for angel investors deserves closer look

By David Nicklaus

Perhaps this is the year when Missouri's tax code once again will take the side of the angels.

Gov. Matt Blunt, in his State of the State address this week, endorsed the idea of \$5 million in tax credits for angel investors, which is a term for people who put money into high-risk, high-tech startup companies. Given the St. Louis area's disappointing ranking in a recent venture-capital survey, it looks like a good time to re-examine the way the state supports, or doesn't support, early-stage companies.

Missouri had an angel-investor credit in the late 1990s, but let it lapse after the dot-com bubble burst. Stories of virtual companies that were here today and gone tomorrow left state officials wondering why they had subsidized such risky ventures.

Since then, angel investors have organized groups such as the St. Louis Arch Angel Network, and their focus has shifted from get-rich-quick Internet business plans to health-care and biofuels ventures that require far more patience.

The St. Louis area also has developed a handful of successful venture-capital funds, but they generally don't invest in raw startups. And a recent survey by BioEnterprise, a Cleveland-based research firm, shows that St. Louis' stature is slipping among health care investors. We fell from No. 4 to No. 8 in the firm's ranking of 12 Midwestern cities. The problem: Venture capitalists are not finding enough attractive deals here.

That's because, despite focusing on the life sciences for nearly a decade, the St. Louis area still isn't good enough at turning academic research into money-making, job-producing businesses. The recent Grow-Me State study, funded by groups that favor the angel credit and other state incentives, showed that Missouri ranks 12th in the amount of federal research dollars going to

its universities, but 27th in the number of startup companies being formed out of that research.

The 3-year-old St. Louis Arch Angel Network has invested about \$15 million in a dozen startup companies here. Gil Bickel, the group's chairman, says a tax credit would help the Arch Angels recruit new members and make more investments.

Given the recent turmoil on Wall Street, Bickel said, an extra incentive might be critical to keeping the money flowing. "If people feel there is more risk in the marketplace, it raises their antennae. They feel like, 'If there's more risk in my portfolio in general, then maybe this (startup) is something I should be reconsidering.'"

Bickel remembers the tax-credit program of the late 1990s, and also remembers the hard feelings — and scandals — that followed some business failures of that era. He says it's possible to scrutinize businesses more carefully, but it's impossible to avoid failures.

"This is a business where if we get two or three out of 10 companies that are really successful, that's a good batting average," he said. "The question is, will those companies be making it here, or will they be making it in Illinois or Wisconsin or Kansas or somewhere else?"

The best argument against the angel credit is one that could be used against any targeted incentive: The best way to stimulate the economy would be to keep tax rates low for everybody, firms and individuals alike.

But if Missouri's going to use tax-code giveaways to benefit everybody from big companies to agricultural interests to senior citizens, it's time to show that we care about entrepreneurs, too.

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