

INDIANA VENTURE CAPITAL STUDY: THEN AND NOW

Series of impact reports on Indiana
Chamber Foundation studies

From the *Indiana Venture Capital Study*, commissioned by the Indiana Chamber of Commerce Foundation, prepared by Arthur Anderson LLP and released in August 2000:

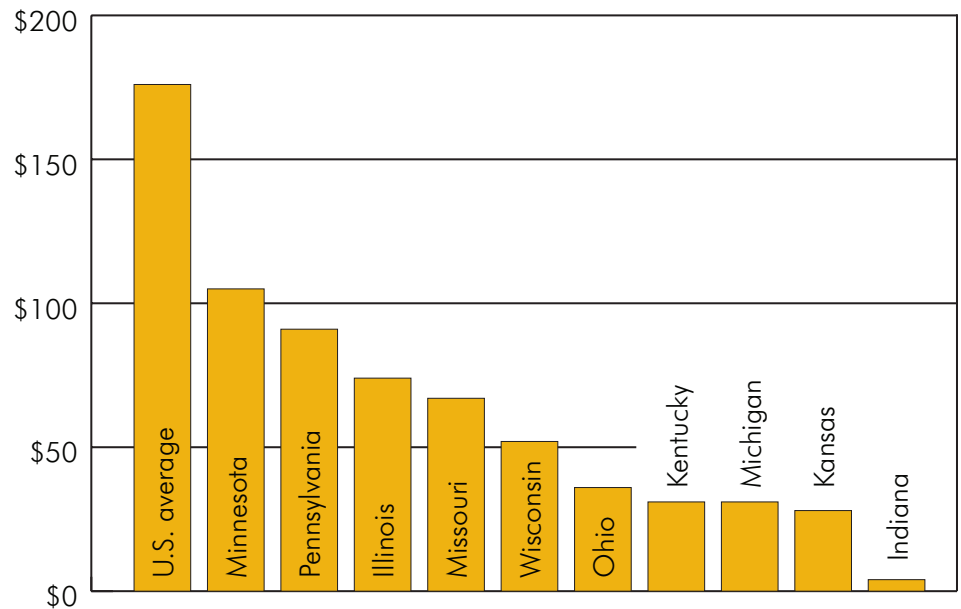
"Our research has indicated that venture capital is undeniably linked to economic prosperity and, therefore, is an issue that policymakers should be concerned with as they think about Indiana's economic future."

"Many states are moving quickly in an effort to keep up with the pace of the new economy. They are introducing new programs and experimenting with initiatives in an effort to increase the share of successful high growth firms in their local economies. It is important that Indiana follows suit, or we risk being left behind."

"Indiana is taking some steps in the right direction; however, as our peers are moving more quickly than we are, the gap is widening. If we do not take action to correct this deficiency, Indiana will be at a serious disadvantage in terms of our ability to compete in the new economy, potentially jeopardizing the future economic health of our state."

1999 State Venture Capital Investments

Indiana and Selected States



Indiana lacked a venture capital investment (VCI) tax credit, an incentive that was being implemented in other states. The state was also one of 11 with an inventory tax.

According to the study: Due to a 100% single sales apportionment formula adopted in our neighboring state to the west, the income tax liability for a company headquartered in Indiana in 2000 would have been 70% higher than if the business located in Illinois.

EARLY PROGRESS

Indiana lawmakers passed a venture capital investment tax credit in 2002, with the law taking effect in 2003. It initially provided investors with 20% of the investment amount in the form of a tax credit or \$500,000 – whichever was less. The annual cap on the total amount of tax credits that could be approved by the state was \$10 million. It was subsequently amended to current levels of a \$1 million credit and \$12.5 million cap.

In subsequent *Economic Vision 2010* and *Indiana Vision 2025* Report Cards, the state's venture capital ranking improved. In the evaluation for the years 2008-2010 (a three-year average was utilized in the Report Cards to better account for one-year anomalies), Indiana ranked 23rd. It was 27th for the 2010-2012 time period.

Indiana's VC Rankings

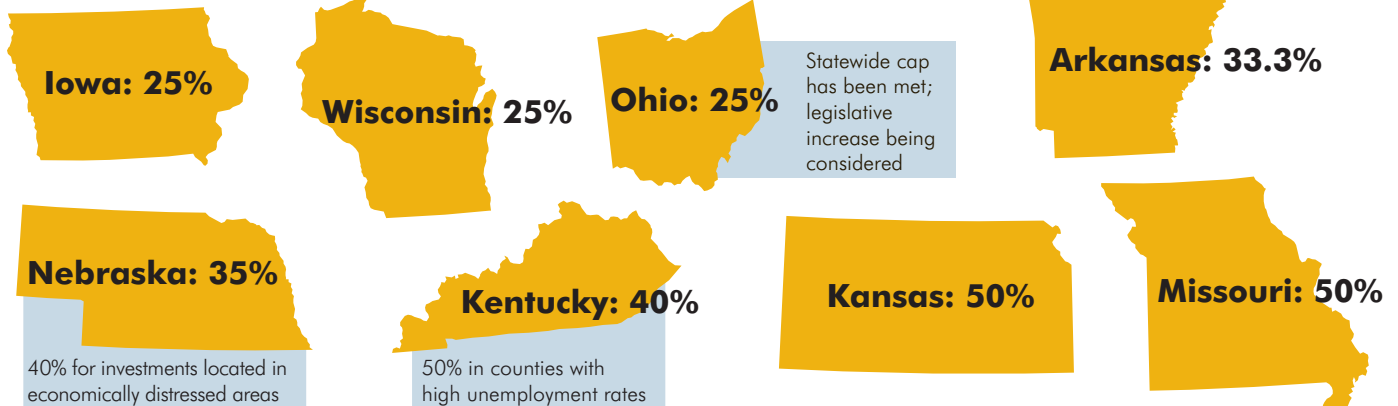
(dollars invested per worker; among the 50 states)

45
1999

23
2008-2010

35
2014-2016

Maximum Credit and Transferability: Select States



MOMENTUM SLOWED

In ensuing years, Indiana did not increase its 20% tax credit or move to make its credit refundable, transferable and/or sellable. Its lower maximum percentage and more restrictive use placed the state at a disadvantage compared to other states with which it competes.

If you are forming a company in Jeffersonville or Richmond, for example, there is a strong incentive to locate across the border in the Louisville or Dayton metro areas to take advantage of more expansive tax credits in those states.

In the two most recent *Indiana Vision 2025* Report Cards, Indiana's overall venture capital ranking has continued to decline – No. 36 for 2012-2014 and No. 35 for 2014-2016. The upcoming Report Card, to be released in June, will evaluate the 2016-2018 timeframe. Early indications are that while Indiana improved its performance in deals and dollars in 2018, its overall ranking continues below expectations.

A *BizVoice*® magazine analysis of the state's venture capital landscape in the September-October 2017 issue found the state trailing its larger neighbors (Illinois, Michigan and Ohio) in not only total deals and funds invested but also average deal size for 2016 and the first half of 2017.

On the positive side, a story noted the increased attention paid to Indiana by regional venture capital firms, among them: Plymouth Growth Partners of Ann Arbor, Michigan; Cultivation Capital of St. Louis; and Hyde Park Venture Partners, based in Chicago but with an Indianapolis office. Another article in that issue highlighted growing, but still somewhat limited, angel investing efforts around the state.

The consensus: While Indiana has many advantages and an emerging entrepreneurial ecosystem, it is particularly lacking in growth capital to accelerate an organization with a strong early start to the next level.

MOVING FORWARD

The venture capital landscape is a complex one. What is clear, however, is that the *Indiana Venture Capital Study* in 2000 helped lead to enactment of a venture capital investment tax credit. Various efforts in ensuing years helped ensure the credit remained in place. The latest move to incorporate transferability began in 2017.

While the VCI enhancement was not successful that year, it elevated the discussion and led to the establishment of the Next Level Indiana Fund. That is an up to \$250 million state investment in a "fund of funds" approach that will drive more capital into the market.

In 2019, continued advocacy efforts by the Indiana Chamber and allies led the Indiana General Assembly to pass and Gov. Holcomb to sign legislation allowing for the VCI to be transferable. It is expected to have a major impact in the state when it takes effect in July 2020.

The next steps include discussions on raising the 20% credit to be more competitive with other states (see examples at top of page) and increasing the total amount available beyond the \$12.5 million annual cap.

Indiana Vision 2025, powered by the Indiana Chamber Foundation, and the Indiana Chamber's technology and innovation policy committee will continue their focus on further improving the state's entrepreneurial successes – and the funds needed to pave the way.