

## Angel Investing in New Mexico

New Mexico Angels, Inc. is the regional network of angel investors in New Mexico. New Mexico Angels have sixty accredited investors in their network. They review over 250 investment deals on a yearly basis, they screening 50 companies each year, they have 8-10 companies present to their membership each year and invest in 3-5 companies each year.

- Average investment is \$100,000 to \$400,000
- Amount of investment from New Mexico Angels group in 2013- \$1,400,000
- Number of New Mexico companies: Six
- New Mexico Angels have invested in notable New Mexico companies such as:
  - Acoustic Cytometry Inc.
  - Exagan Diagnostic Inc.
  - Advent Solar Inc.
  - SAMBA Safety Inc.
  - Ztec Inc.
  - Preferred Produce Inc.
  - And many others!

There are many other angels investors in New Mexico that have funded other start-up companies.

### Angel investing is very important to the Start up Ecosystem.

Start Up companies are usually funded the following manner:

1. Entrepreneur funds own company
2. Friends and Family fund company
3. Micro Lenders fund company
4. Angel Investors fund company
5. Venture Capital fund company

## Current State of Angel Tax Credit:

- Angel Investment Credits that can be issued to an aggregate \$750,000
- Angel Tax Credit percentage is 25% of an eligible angel investment
- Investor can take up to \$25,000 angel tax credit on \$100,000 in qualified investments
- Investor can take the tax credit on two qualified investments
- The Angel Tax Credit can be carried forward for three years
- Angel Tax Credit Sunsets on December 31, 2016
- The Angel Tax Credit is non-refundable credit and taxpayer must incur a New Mexico tax liability to utilize the credit.

## **Proposed Enhancement to the New Mexico Angel Tax Credit:**

- Angel Investment Credits that can be issued to an aggregate \$2,000,000
- Angel Tax Credit percentage remains 25% of an eligible angel investment
- Investor can take up to \$62,500 angel tax credit on \$250,000 in qualified investments
- Investor can take the tax credit on five qualified investments
- The Angel Tax Credit can be carried forward for five years
- Angel Tax Credit Sunsets on December 31, 2024

## **Qualifications of Companies apply for the New Mexico Angels Tax Credit**

In order for an activity to qualify for an Angel Investment Credit, the research must meet all the requirements as described in section 41(d) of the Internal Revenue Code. Under section 41(d), the term "qualified research" means research:

1. With respect to which expenditures may be treated as expenses under section 174, (also known as the section 174 test);
2. Which is undertaken for the purpose of discovering information which is technological in nature, (also known as the discovering technological information test);
3. The application of which is intended to be useful in the development of a new or improved business component of the taxpayer (also known as the business component test); and
4. Substantially all of the activities of which constitutes elements of a process of experimentation for a qualified purpose (also known as the process of experimentation test).

To be considered "qualified research", the taxpayer must be able to establish that the research activity being performed meets ALL four of the above tests. These tests must be applied separately to each business component of the taxpayer.

## **What the LFC Analyst said in the FIR to Enhancement to Angel Tax Credit**

Although this expansion of the Angel Investment Credit will be a current tax expenditure, and does impose a cost on the General Fund of up to \$2 million per year, one major success, or several moderate successes from each year's class of investments could repay the General Fund loss many times over. EDD notes that the investments considered by Angel Investors are seed money and startup investments, not subsequent round investments that are of interest to venture capitalists. These are high risk investments.

## Angel Investing

The term "angel" originally comes from Broadway, where it was used to describe wealthy individuals who provided money for theatrical productions.

Angel investors are often retired entrepreneurs or executives, who may be interested in angel investing for reasons that go beyond pure monetary return. Thus, in addition to funds, angel investors can often provide valuable management advice and important contacts. Due to the fact that there are no public exchanges listing their securities, private companies meet angel investors in several ways - everything from referrals from the investors' trusted sources and other business contacts to investor conferences and symposia, and most commonly at meetings organized by groups of angels where companies pitch directly to investor in face-to-face meetings

Angels typically invest their own funds, unlike ventures capitalists who manage the pooled money of others in a professionally-managed fund.

Angel capital fills the gap in start-up financing between "friends and family", who provide seed funding and formal venture capital. Although it is usually difficult to raise more than a few hundred thousand dollars from friends and family, most traditional venture capital funds are usually not able to make or evaluate small investments under US\$1–2 million. Thus, angel investment is a common second round of financing for high-growth start-ups, and accounts in total for almost as much money invested annually as all venture capital funds combined, as but into more than 60 times as many companies (US\$20.1 billion vs. \$23.26 billion in the US in 2010, into 61,900 companies vs. 1,012 companies).

While more readily available than venture financing, angel investment is still extremely difficult to raise. However some new models are developing that are trying to make this easier.

Angel investments bear extremely high risks and are usually subject to dilution from future investment rounds. As such, they require a very high return on investment. Because a large percentage of angel investments are **lost completely** when early stage companies fail, professional angel investors seek investments that have the potential to return at least ten or more times their original investment, through a defined exit strategy. While the investor's need for high rates of return on any given investment can thus make angel financing an expensive source of funds, cheaper sources of capital, such as a bank financing, are usually not available for most early-stage ventures