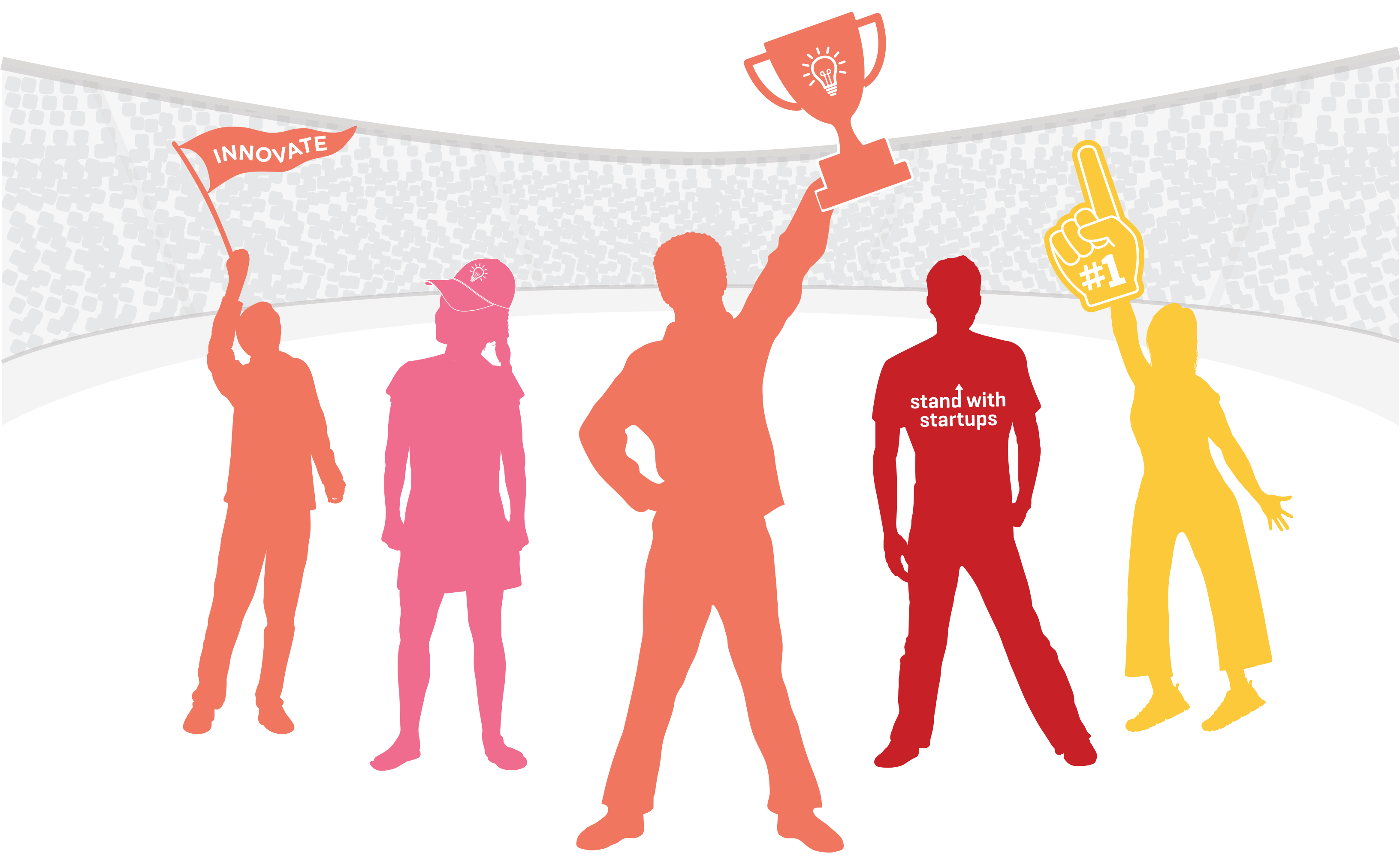
STARTUP POLICY AGENDA 2023

How policymakers can be startup champions



INTRODUCTION

It's a new year and a new Congress, but the core policy issues facing startups largely remain the same. As policymakers at all levels of government look to be champions for small businesses and startups—the tech-enabled, high growth small businesses of the technology and Internet industries—specifically, it's critical that they listen to the thousands of companies, investors, and support organizations that make up the startup ecosystem.

There are startups in every state and congressional district across the country, so, whether or not they know it, every member of Congress represents part of the startup ecosystem. And every policymaker, committee, and agency that's working on technology, Internet, innovation, and entrepreneurship policy has a chance to support—or harm—the startup ecosystem.

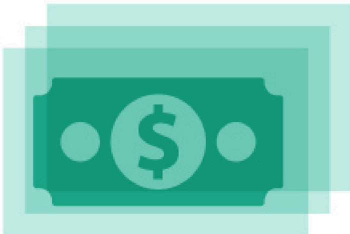
There's immense diversity—of business model, industry focus, background, geography, demographics, and more—in the ecosystem, so startups rarely speak with one, unified voice. And their voices certainly don't dominate the policy conversations unfolding in federal and state government buildings across the country. But their perspective should be front and center for policymakers.

Engine's Startup Policy Agenda for 2023 highlights the voices of those startup companies, investors, and support organizations as they discuss in their own words the obstacles they face and the ways policies have helped and hurt them. We hope it serves as a high-level overview of the issues we hear about from startups every day and a jumping off point for policymakers looking to support the technology industry's small businesses.

CONTENTS

Capital Access

Why it matters to startups:



Access to capital is perhaps the most critical barrier startups face when launching. Most startups launch with a combination of limited amounts of funding, often cobbled together from a mix of personal loans and family savings. Even the average seed stage startup only has roughly $55,000 a month in resources, which, after payroll and expenses, leaves little room to cover extras. And only an estimated 1 percent of startups even receive venture capital. Founders of different backgrounds—including race, gender, and geographical location—often face greater barriers across the board in accessing the capital they need, from friends and family rounds, to business loans, to venture capital.

Key takeaways:

- Most startups rely on a patchwork of funding sources outside of traditional venture capital.
- Policies should make it easier for startups to access capital and open up capital markets to allow more people to participate in funding early-stage companies.
- Difficulties with accessing capital are especially relevant to underrepresented founders, including women and founders of color.

What policymakers can do:

Policymakers must continue to improve the regulatory environment in which startups operate to raise capital, especially amidst expected efforts by the SEC, to, for example, limit the definition of accredited investor and would make capital access more difficult. Policymakers can also address capital access issues with federal funds, including streamlining federal grant processes which can be slow and poorly suited to the startup lifecycle, addressing accessibility of federal programs, directing federal funds to incubators and accelerators, and supporting organizations that provide valuable support, resources, and programming for startups. And government should specifically prioritize equalizing access to capital for underrepresented founders, including through incentivizing venture capital funds to be allocated to diverse founders, ensuring access to Small Business Administration resources, and identifying and rectifying discrimination in bank lending. Policymakers should undertake efforts to bring diversity to the investment community, including through the Small Business Investment Company (SBIC) program, to encourage the SBA to license smaller funds (which are more likely to be diverse) as SBICs and would be more likely to invest in underrepresented founders.

Startup Spotlight

Ahdere Gear
(Portland, OR)
Robert Buchanan, Founder & CEO

Adhere Gear uses Internet-connected technology to make cargo shipping operations and logistics more efficient.

"I've seen a lot of great ideas that really only needed $10,000 or $15,000 to prove that they've got a worthy product. Investors never even take a look at those types of opportunities, and I think that's where the government can step in. So between the challenges of applying for government programs or getting in the door to access [venture capital] funding, it's incredibly hard to get the funding to build a business that will make so many systems work better."

Key takeaways:

- Underrepresented founders face diminished access to all forms of capital.
- Policymakers should undertake efforts to ensure representation amongst government decision makers.
- Inequities exist in STEM education and government should prioritize recruitment of diverse educators.

We're all better off with a more representative, more equitable startup ecosystem, where anyone with a good idea—no matter where they live or what they look like—has a chance to succeed.

Representative teams produce better innovation. And racially and gender diverse teams are more likely to be more profitable than less-diverse teams. More representative teams are better able to suit a diverse customer base and reach wider audiences. Diversity within a leadership team is also directly correlated to increased innovation as measured by revenue from new products and services. Studies routinely show that a significant amount of employer businesses and new jobs could be created if only underrepresented founders had equitable access to start and scale their businesses.

But underrepresented founders—including women founders, founders of color, immigrant founders, and rural founders—face significant barriers in achieving startup success. From restricted access to capital, including venture capital, reduced access to bank loans, and diminished friends and family rounds, to fewer opportunities with respect to networking and mentorship, to inequities in STEM education and access to broadband, diverse founders face struggles at every step of their startup journey. In order to bring more diversity into the ecosystem, it is important to ensure diversity is prioritized throughout; institutions, individuals, and policy must do better to support diverse innovators.

Policymakers must prioritize diversity in all areas affecting a startup's chances of success. They should prioritize attracting and retaining diverse leaders and employees across every government agency that funds or regulates research and development sectors to help to ensure equity in decision making. And they should ensure that government accurately collects data on startups and underrepresented founders to better inform their work. Policymakers should also work to incentivize private investment in more diverse startups and should work to simplify access to government grants and programs so that they are more accessible to all founders. Efforts should be taken to boost mentoring and networking opportunities for women founders and founders of color to help them better access the resources they need. Finally, policymakers should also work to address inequities in STEM education, including issues pertaining to retention and the "leaky pipeline," and prioritize the recruitment and training of diverse STEM educators.

Startup Spotlight

Chicago:Blend

(Chicago, IL)

Joey Mak, Executive Director

Chicago:Blend is a non-profit support organization working to address the gaps that underrepresented funders and founders face.

"We know that access to capital—especially very early access to startup capital—is really important, because oftentimes, by the time a founder gets in front of the VC, the VC is almost surely going to ask them about their traction, how much money they've raised, etc. If you don't have a lot of rich friends and family who can help you with that initial raise, then everything that follows is so much harder."

Section 230

Why it matters to startups:

Section 230 is crucial for any company that hosts content created by users—including websites with comment sections, apps that let users share messages, photo storage services, and websites that let users rate and review products they've bought. Under the law, Internet companies of all sizes are able to host and moderate their users' content at their discretion without the fear of being held legally liable for what users say or share. A small, new company that hosts user content won't be able to get investment, get off the ground, and grow its business if it has to constantly be prepared to face costly, time-consuming lawsuits over the content its users post. And unlike the largest tech companies, startups do not have the time and resources to hire thousands of people or build expensive and ultimately imperfect tools to monitor what their users share.

Key takeaways:

- Startups need to be able to create online spaces that are useful, relevant, and welcoming to their users.
- Content moderation is difficult for all companies that host-user generated content, especially for startups, which can't afford to hire thousands of content moderators or build expensive filtering tools.
- Section 230 allows Internet companies to relatively quickly and inexpensively resolve lawsuits over content created by their users.

What policymakers can do:

Policymakers understandably want to address concerns about problematic content that spreads online, especially when online content leads to real world harms. But significantly amending Section 230 could make it harder for smaller and new Internet companies to launch and compete, leading to fewer places for users to gather online. Content moderation is incredibly difficult, even for the world's largest companies. There are no silver bullet solutions to quickly finding and removing the user content a company doesn't want to host, including technological solutions, which are inherently imperfect and expensive to build and maintain.

Additionally, companies face competing pressures over what content should be removed from federal and state policymakers. Some accuse companies of removing too much and have proposed requiring that Internet companies host certain content, despite the fact that Internet companies have rights to moderate content—not obligations to host content—under the First Amendment. At the same time, others say companies aren't doing enough to remove or suppress problematic content—including illegal content as well as First Amendment-protected speech like misinformation. Given the practical and legal realities, most reforms to Section 230 wouldn't change the ability of a company to host, moderate, sort, amplify, or demote content, but they would create opportunities for lawsuits or even threats of lawsuits that would be ruinous for startups.

Startup Spotlight

iAccess Innovations
(Atlanta, GA)
Brandon Winfield, Founder & CEO

iAccess Innovations operates a platform where users can discuss accessibility experiences in public spaces.

"We don't have the attorneys, the money, or other resources to try and keep up with what every user says in real-time....We want companies to be paying attention to accessibility, and if we had to constantly focus on moderating content, it would stop us from growing and getting the traction that we need for big organizations of the world to take notice of us. And it would hurt us a lot if we had to deal with legal action from companies that did not like a review."

Copyright & Trademark

Why it matters to startups:

Many startups encounter user-generated content—for example, digital services where artists connect with fans, e-commerce platforms, podcasting sites, and website infrastructure companies. These companies and the users and creators who rely on them routinely interact with the copyright and trademark systems. And these startups rely on balanced legal frameworks—like Section 512 of the Digital Millennium Copyright Act (DMCA) and the judicial decision in *Tiffany v. eBay*—which provide that companies should not automatically be liable for alleged infringement by users that the company has no knowledge of or direct involvement in. In practice, companies establish notice-and-takedown processes for resolving allegations of online infringement, removing accused content upon receipt of a complaint. These frameworks strike a valuable balance that is especially important to startups, because the law provides certainty and guards against mere threats or unaffordable legal exposure putting startups out of business. Startups, Internet users, and Internet-enabled creators also face abusive copyright litigation threats and improper trademark takedowns. For example, companies routinely receive takedown requests from purported rightsholders seeking to remove non-infringing content they do not like. But the threat of steep statutory damages and imbalanced procedures for resolving infringement claims compound these problems—stifling speech, economic opportunity, and creativity online.

Key takeaways:

- Changing the framework for online copyright and trademark claims would have an outsized, negative impact on startups that encounter user-generated content.
- Mandating filtering technology—which is very expensive and inherently error-prone—would create high costs and risks for startups without catching much (if any) more infringement.
- Policymakers should protect Internet users and Internet-enabled creators against abusive threats and improper takedown notices.

What policymakers can do:

Congress should avoid decreasing certainty or imposing unwarranted costs and risks on emerging Internet companies, especially considering that these startups infrequently encounter infringing content. Today's startups need the same legal frameworks afforded to their predecessors in order to compete. Larger Internet companies have the resources to absorb increased cost and risk. Startups do not. Policymakers should also avoid requiring Internet companies to proactively monitor or filter all user posts to try to detect infringement. This would not catch much (if any) additional infringement, but would impose a lot of new costs and risks and create substantial barriers to entry. Policymakers should adopt changes to combat abuse of the current systems. For example, the law should discourage the sending of improper takedown notices. And policymakers should consider ways to restore balance to the overall copyright and trademark systems to avoid giving bad actors even more leverage over startups, Internet-enabled creators, and everyday Internet users.

Startup Spotlight

Event Vesta

(Omaha, NE)

Andrew Prystai, CEO & Co-Founder

Event Vesta is an event discovery and promotion platform.

"Our terms of service stipulate that whatever content you upload you are self certifying that you have the copyright rights to do so. We're able to do that because of existing law. . . . Responding to requests in this way is doable, but having to build a filtering system on the front end that would filter user content would be extremely cost prohibitive. Frankly, if that was a system we had to build on day one to get this off the ground, then we probably would never have even started."

Patents

Why it matters to startups:

Patent quality is essential to innovative, high-tech startups. High-quality patents can be a valuable asset for many emerging companies. Low-quality patents—those that claim things that were already known or that are written in vague, overbroad terms that are difficult to understand—on the other hand, lack value and can fuel abusive litigation that harms startups. Unfortunately, many startups will only interact with the patent system in the context of abusive litigation. For example, patent assertion entities—also known as "patent trolls"—use patents to try to coerce startups to take quick settlements, knowing startups cannot afford costly patent litigation. Competitors can also use patent litigation to distract startups and slow down or stall new market entrants. Weak and overbroad patents are especially easy to misuse because they can be asserted against many startups' basic activities. Startups benefit when the U.S. Patent and Trademark Office (USPTO) and the courts weed-out weak and overbroad patents and when they can afford to defend themselves against frivolous or abusive lawsuits.

Key takeaways:

- Startups need patent laws that protect truly new inventions and prevent the issuance of low-quality patents that stifle innovation.
- Policymakers must focus on patent quality; preserve tools to clear out weak, overbroad, low-quality patents; and foster affordable mechanisms for startups to defend themselves in frivolous or abusive lawsuits.

What policymakers can do:

Patent law has been improving for startups and innovation. Developments in the past decade have leveled the playing field in litigation and given startups easier and cheaper defenses when weak or overbroad patents were asserted. Policymakers should prioritize patent quality—not falling into the trap of placing quantity over quality—and avoid legislative or policy changes which could upset the existing balance or give bad actors more leverage over startups. Congress and the USPTO should seek ways to improve the quality of U.S. patents and ensure affordable ways to weed-out low-quality patents. For example, the 2011 America Invents Act created inter partes review, a procedure through which the PTO can take a second look at patents and cancel those that never should have been granted. Around the same time, the Supreme Court decided key cases confirming that abstract ideas performed on a computer are not patent eligible and that startups cannot be sued for infringement in far-flung corners of the country. Despite these successes, in recent years some have sought to overturn improvements. Policymakers should instead preserve progress made over the past decade and further endorse tools that promote quality and reduce costs of defending against costly, frivolous patent lawsuits.

Startup Spotlight

Formlabs
(Somerville, MA)
Shirley Paley, General Counsel

Formlabs makes affordable, industrial-quality 3D printers, printer materials, and software.

"When the PTO gives you a patent, they think they are giving you something narrow. . . . But then the [patent assertion entity] manipulates it to something completely different. . . . [T]he ultimate solution there needs to be well thought out on the federal level. State anti-troll laws are nothing fancy, but they do one thing well: they create a cost for the troll."

Why it matters to startups:

Much of the conversation around privacy and data security focuses on large Internet companies, but startups have to navigate the same legal and regulatory framework around data without the resources of their larger counterparts. Several states have their own privacy laws coming into effect, more states are considering their own, and the Federal Trade Commission has initiated a rulemaking process for privacy rules. Many of these efforts have the same overarching goal but contain relevant differences and startups are left to grapple with those varying requirements and obligations that increase compliance and legal costs.

Key takeaways:

- Startups can benefit from reasonable, commonsense privacy and data security rules that promote trust in the Internet ecosystem.
- Startups need one uniform, consistently-enforced set of rules around user privacy to provide predictability and stability as they launch and grow, especially as several varying state privacy laws take effect.
- A federal framework should incentivize pro-privacy and strong security measures that make sense for a wide range of startups and their unique risk profiles without creating unnecessary compliance costs or legal risks that they cannot afford.

The evolving and varying laws at the state level adds to a longstanding patchwork of state data security and data breach notification laws, which create disparate requirements about how startups have to protect against data breaches and what a startup has to do to notify users if it is the victim of a data breach. A federal privacy and data security framework can create consistency for startups while ensuring strong protections for consumers.

What policymakers can do:

Policymakers should prioritize crafting a uniform federal privacy and data security framework that creates certainty for startups while providing strong protections for consumers. Five states have data privacy laws that will enter force this year and more states are set to act. The 117th Congress came closer than ever to passing a comprehensive federal privacy framework, but familiar sticking points hindered progress, including whether the federal framework would preempt state laws and how to enforce the law. Congress should create one federal standard so startups know their obligations and responsibilities under the law, regardless of where they're located, and that framework should be consistently enforced to ensure certainty and to minimize opportunities for bad actors to weaponize costly legal action against startups.

Policymakers should additionally defend the ability of technology companies to protect their users through encryption. The push for "backdoors"—or intentional vulnerabilities in hardware or software that can be exploited by law enforcement—will do more harm than good by opening up products and services and their users to malicious actors.

Startup Spotlight

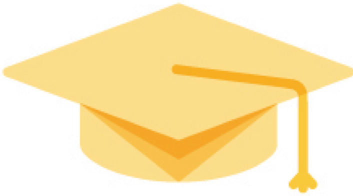
People Clerk
(Miami, FL)
Camila Lopez, Co-Founder

People Clerk helps users of all backgrounds navigate small claims courts.

"We haven't had any issues with putting all necessary safeguards in place to protect our clients' information, but it is difficult navigating compliance with the different privacy laws out there. Currently, the rules can vary significantly on a state-by-state level. On top of that, our attorneys keep telling us that they're still changing fast, which means it's hard to have a stable, up-to-date privacy policy you feel confident is fully compliant."

Talent

Why it matters to startups:



Startups need to hire the best and brightest talent to compete, but the U.S. talent pool isn't currently equipped to fill all of the talent gaps. While larger companies can turn to the immigration system to fill some talent gaps, startups struggle to navigate the process for hiring high-skilled, foreign-born workers as it is lengthy and complex, and imposes additional financial burdens on already tight startup budgets. The startup ecosystem would also be benefitted if foreign-born founders had an easier path to come to the U.S. and launch companies here.

The U.S. technology sector also needs a more diverse and better trained workforce, ensuring more people learn the necessary skills for, join, and stay in the innovation ecosystem. The lack of affordable childcare, which became most acute during the pandemic, has forced many caregivers, particularly women, out of the innovation ecosystem. And crippling student loan debt similarly restricts many from pursuing innovation as a career. Finally, startups need flexibility in when and how they hire talent, and efforts to restrict the ability to hire needed talent, including independent contractors, could hinder startup growth.

Key takeaways:

- The startup ecosystem needs flexibility and access to the best and brightest talent to succeed.
- The U.S. needs to attract and retain skilled talent from around the world to compete globally, including by implementing a startup visa.
- Policymakers must support caregivers and improve access and affordability of childcare so that women can pursue innovation.

What policymakers can do:

To address the current talent gap that startups face, policymakers should take steps towards building a larger and representative high-skilled workforce. This includes ensuring startups have access to the flexibility they need in making hiring decisions and through boosting funding for, and improving STEM education. Policymakers at all levels of government should work with stakeholders in order to remove barriers to participation in STEM careers, including through grants to boost participation of underrepresented individuals in STEM programs.

Policymakers should also work to improve access to affordable childcare, so that caregivers, especially women, do not continue to be forced out of the innovation ecosystem. And although the administration has tried to implement student debt reform, legal challenges remain, policymakers should work to implement legislative solutions to the student debt crisis.

Startup Spotlight

Pruve Systems
(Washington, DC)
Thomas Dawson, Co-Founder & CEO

Pruve Systems builds identification and access systems using AI and blockchain.

"We are creating our own brain strain because we are not training enough new innovators...nor are we keeping the talent that we are training in our universities. We can solve this problem if we encourage public and private policies that cast a wide net and train kids that are never thought of as the next generation of inventors and coders."

Policymakers should also defend and expand existing immigration programs and implement new programs to enable foreign-born entrepreneurs to come to the U.S. The Deferred Action for Childhood Arrivals program remains on shaky grounds, and recipients still lack a permanent solution to legally remain in the U.S. Efforts should be made to bolster the H-1B visa program and make it more easily accessible to startup founders. Policymakers should work to implement a startup visa with a pathway to citizenship, to enable the U.S. to remain at the forefront of innovation.

Why it matters to startups:

Thanks to the Internet, an entrepreneur located anywhere in the country should be able to launch and grow a company that reaches users across the world. But entire communities are currently excluded from participating in the startup ecosystem—including as startup founders and employees as well as users—because they don't have sufficient ability to get online. Increasing reliable and affordable broadband access through wireless and wireline connectivity, devices, and digital literacy resources creates more opportunities for innovation and entrepreneurship.

Startups also need telecommunications policy that ensures a level playing field where new and innovative companies can compete against large incumbents with deep pockets. This includes through net neutrality protections—which ensure Internet service providers don't block or throttle the users trying to reach startups' services or charge startups for better access to their users—and through balanced spectrum policy that preserves unlicensed spectrum—the shared airwaves that fuel Wi-Fi networks and Bluetooth technology—for use by all.

Key takeaways:

- Startups need policymakers at all levels of government to prioritize more reliable, affordable, and accessible broadband in all communities across the country.
- The startup ecosystem is benefited when more people have the digital literacy tools and resources to get online.
- Policymakers need resources and accurate data to advance broadband access and digital literacy in an equitable way.

What policymakers can do:

Policymakers should continue working to improve broadband access across the country by pushing ISPs to build out broadband access in underserved areas. Early in the pandemic, when Internet access became even more critical, Congress passed a handful of bills aimed at closing the digital divide. The National Telecommunications and Information Administration is now working on administering the billions of dollars set aside. As they continue their work to close the digital divide, policymakers need accurate data about which communities lack sufficient broadband access. They also need to invest in efforts to get the necessary tools and resources to communities that aren't able to participate in the innovation ecosystem due to a lack of digital literacy. Those efforts should be targeted at the underserved communities that currently lack the necessary knowledge and equipment.

Policymakers should also advance balanced spectrum policy that makes unused spectrum available for unlicensed use, and they should reinstate strong net neutrality protections to ensure that the Internet is a level playing field. Both of those issues tend to be dominated by large, incumbent voices in policy debates, but policymakers should actively seek out and consider the startup perspective.

Startup Spotlight

Ecobot
(Asheville, NC)
Lee Lance, Co-founder & CEO

Ecobot is a platform to streamline data collection in fieldwork.

"Very often, there is no data coverage in areas of new development. So if our customer is working on a month-long pipeline project in southern Alabama, for example, even when they get back to their hotel, they're likely still lacking good coverage. We know that widespread broadband needs to catch up with innovation."

Trade

Why it matters to startups:

The continued digitalization of world economies has contributed to the significant growth of digital trade, letting startups and the smallest Internet companies reach users across the globe. A global patchwork of laws and regulations that stifle digital trade and have a disproportionate impact on small startups that lack the compliance resources of their foreign and larger industry competitors. These barriers hinder the growth of digital trade and stand in the way of U.S. startups' ability to compete abroad.

Key takeaways:

- Sound digital trade policy is a vital part of promoting domestic technology entrepreneurship—lowering barriers to trade unlocks markets for U.S. startups to expand, compete, and find success.
- U.S. trade policy should seek to lower barriers by smoothing global regulatory patchworks, facilitating cross-border data flows, avoiding sector specific levies, and fostering access to foreign markets.

What policymakers can do:

To support startups' domestic growth and contributions to the U.S. economy, policymakers should strive for digital trade policies that improve startups' international competitiveness and keep barriers to trade low by providing proportionate, tailored, and certain intermediary liability frameworks, facilitating cross-border data flows, avoiding sector specific levies, and fostering access to foreign markets.

Policymakers must support the legal environment necessary to foster innovation online, including through trade policy. Balanced intermediary liability frameworks, like those found in the U.S., provide the legal certainty needed for startups with business models that rely on user content—whether it's comments, photos, reviews, etc.—to grow and thrive. Around the world, however, common methods for governing intermediaries are taking root that undermine a startup-friendly environment and create new uncertainties and costs for U.S. companies. Laws that require the appointment of local representatives, impose tight content takedown timelines, require automated filtering, require the removal of content that is not otherwise illegal, and threaten heavy fines create barriers to entry for startups and reduce the number of foreign markets available to them.

The Internet allows startups to access foreign markets with little additional investment, but many countries have policies that restrict how and when data can be transferred across borders. Policymakers must act to foster data flows and reduce barriers to trade that startups with limited resources have difficulty overcoming, especially compared to their larger rivals.

Startup Spotlight

PILOT
(New York, NY)
Ben Brooks, Founder & CEO

PILOT provides tech-driven coaching programs to companies to empower their employees.

"To help startups like PILOT be competitive abroad, policymakers must pursue digital trade policies that lower barriers to entry, facilitate cross-border transfers of data, and promote uniform regulatory environments across jurisdictions. Data localization policies and regulatory regimes—especially around data protection and privacy—that vary from jurisdiction to jurisdiction increase the costs of serving customers and their employees in locations with these policies."

Why it matters to startups:

Startup founders, employees, and investors all stand to benefit from tax policies that incentivize contributing to new, innovative companies that can't pay the high salaries or promise the returns that larger companies can. Tax credits, like for research and development (R&D), help startups fund critical and often costly research. Others, including Section 1202 of the Internal Revenue Code—often called qualified small business stock, or QSBS—encourage investment in and enable talent acquisition at early stage startups. State angel investment tax credits attract investors, though comparable provisions do not exist at the federal level.

Key takeaways:

- Providing tax benefits to investors and startup founders and early employees can increase capital, talent, and opportunities for nascent companies.
- Policymakers can improve on existing tax benefits to make them more accessible to startups.
- Discriminatory international or interstate tax frameworks, like digital services taxes, that are targeted at large companies still stand to increase costs for nascent startups with limited budgets.

On the other hand, complex, discriminatory tax frameworks discourage startup growth. Several countries have considered or adopted digital services taxes that, while directed at large U.S. technology companies, could impose trickle down costs for the startups that rely on the services these companies provide. And states, like Maryland, unsuccessfully attempted to follow suit. And while the OECD framework for the adoption of a global minimum tax rate and would eliminate DSTs has been agreed to, the deal must be passed by acquiescing legislatures, including the U.S. Congress, where it faces an uphill battle.

What policymakers can do:

Policymakers should explore ways to expand or alter existing tax benefits to help startups offset their liabilities while encouraging investment. One way to do that would be to make it easier and more useful for more startups to take advantage of the existing R&D tax credit, such as by expanding the definition of what qualifies as R&D to include common software development activities like user experience research and design. Policymakers should also preserve and expand existing benefits for startup investors and employees, including QSBS, and expand the Opportunity Zones program to include more areas. Finally, Congress could explore the creation of a federal tax credit for angel investors to incentivize startup investment, as is offered in a number of U.S. states.

Concerning tax regimes at the state and global levels, U.S. policymakers should continue use the tools at their disposal to push back against discriminatory digital services taxes that will ultimately stifle startup growth and innovation by making it harder for emerging companies to access the critical products and services they need to thrive.

Startup Spotlight

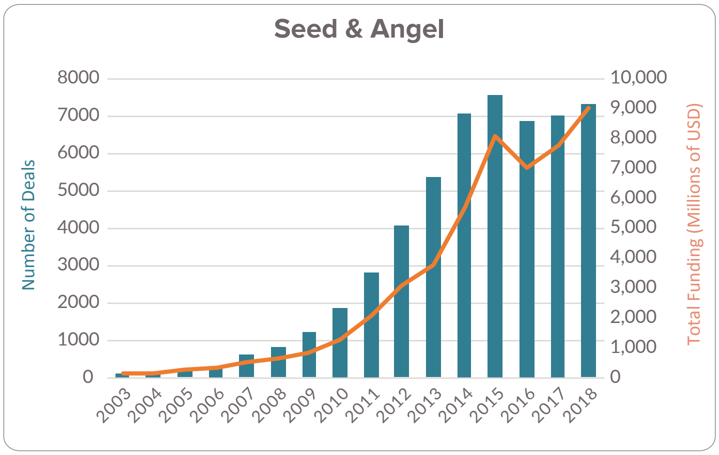
Actionfigure
(Washington, DC)
Matt Caywood, Fo-Founder & CEO

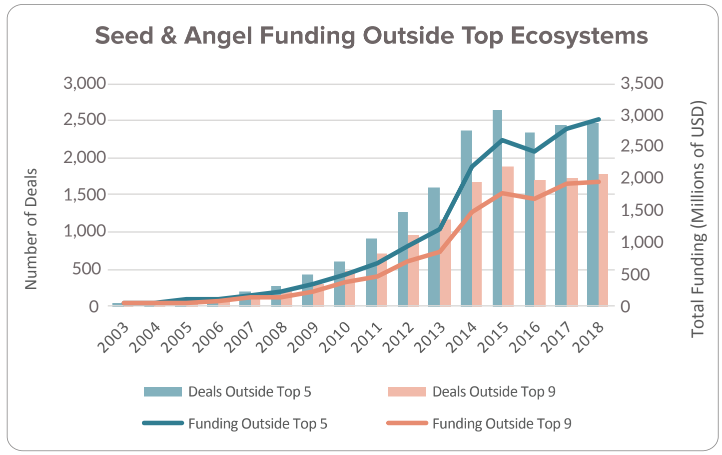
Actionfigure develops tools to make transportation data convenient and accessible.

"QSBS incentivizes people to reinvest money from returns on startup investments into new startups. ...[W]e had an investor who had a liquidity event, but because of QSBS tax treatment, he was incentivized to reinvest that money into a bunch of other startups and be a seed investor in new companies. And investment in startups is exactly what the government should be incentivizing."

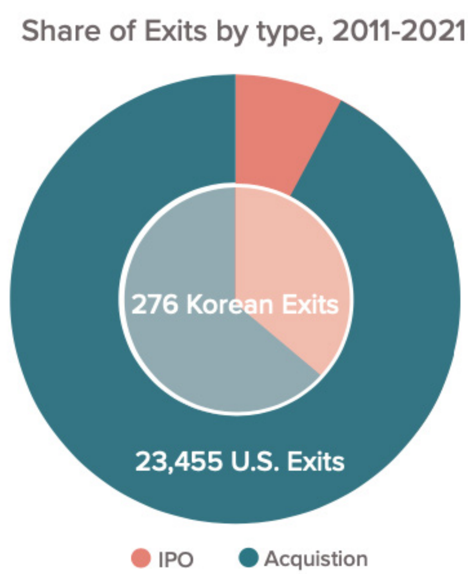
The State of the Startup Ecosystem

As the navigational truism goes, to chart where you're going, you need to first understand where you are. And it's as true for finding your way through the wilderness as it is in policymaking, which is why in April of 2021 Engine released a report analyzing "the State of the Startup Ecosystem." Overall, we found a healthy and growing ecosystem, where formal funding rounds of early-stage companies have grown consistently year after year for the past decade. More of that funding has gone to more locations outside of the top entrepreneurial hubs like Silicon Valley, New York, Seattle, and Boston, but there is still plenty of room for improvement in the overall distribution of venture capital.





Startup investment and startup exits are two intimately related and important drivers of the dynamism that is critical to economic growth and innovation in the startup ecosystem. That is why in 2022, Engine further explored the role of exits in the startup ecosystem. We found that exits via acquisition are particularly important to startups—especially those located outside of hubs like Silicon Valley. Startup acquisitions promote the building of knowledge, recycling of talent, and flow of capital through the ecosystem. Each of those components are key to building new startups and stimulating the investment needed to grow them to scale.



Startup perspectives should be at the core of policy debates, and capital formation and competition policy are not exceptions. That is why the experiences of startup founders from across the country who had their companies acquired—by companies large and small. The founders said acquisitions are a good thing, and policymakers shouldn't make it harder for startups to be acquired. They also shared recommendations for how to improve the acquisition process for startups and key policies to bolster the startup ecosystem.

*"**The acquisition of 21 by Perforce was a success** and the right move for us, and I hope policymakers **don't make these sorts of transactions more difficult.**"*
~ Shani Shoam, CEO, 21 Labs
(acquired by Perforce)

*"**Being acquired is a desirable startup exit** path, and restricting it will lead to less capital and less startup competition."*
~ Steven Cox, Founder & CEO, TakeLessons
(acquired by Microsoft)

*"being acquired was **a really good outcome** for Safaba"... and **"a transformational professional opportunity** and financial outcome for our entire team."*
~ Alon Lavie, Cofounder & CTO, Safaba
(acquired by Amazon)

*"Founders should be able to pursue the pathway to **exit that is right for them...**"*
~ Jewel Burks Solomon, Founder & CEO, Partpic
(acquired by Amazon)

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship.

Engine brings together policymakers and startups to promote an economic environment conducive to startup success. One of the cornerstones of this work is Congressional Startup Day—an annual, bipartisan celebration of entrepreneurial communities that connects startups with their members of Congress. In order to foster open discussions about the successes and policy concerns of the startup community, Engine coordinates meetings between House and Senate lawmakers and their entrepreneurial constituents as part of this nationwide celebration. Congressional Startup Day takes place every year during the August recess as part a week-long initiative to connect all levels of government with the startup ecosystem, and allows startups and entrepreneurs to directly engage with their elected officials about the issues affecting their businesses. If you are interested in participating in Congressional Startup Day, reach out to startupday@engine.is to learn more about scheduling a meeting.

If you would like to learn more about Engine's work or engage with us further about any policy issues, please reach out to the appropriate contact below:

General inquiries: info@engine.is
Media inquiries: comms@engine.is
Policy inquiries: policy@engine.is
Startup inquiries: advocacy@engine.is