

IGNITE American Innovation Act Survey

The IGNITE American Innovation Act will accelerate innovative activity by allowing growth companies to monetize up to \$25 million worth of tax assets. To qualify, a company must have fewer than 1,500 employees.

To better understand why the IGNITE bill will accelerate innovation activity, a coalition of advocates for tech startups including the National Venture Capital Association (NVCA), the Medical Device Manufacturers Association (MDMA), Biotechnology Innovation Organization (BIO), TechNet, the Advanced Medical Technology Association (AdvaMed), Center for American Entrepreneurship (CAE), Angel Capital Association, and Technology Councils of America, conducted a survey of their member companies to capture information on payroll expenditures and R&D spending among venture capital-backed companies. These are the companies most likely to have significant tax assets since their business model uses equity capital to invest in R&D and hiring as they scale their businesses to compete with corporate incumbents.

Startups often go years before becoming profitable as capital is predominantly devoted to these scaling activities. The tax code allows companies that are not profitable to carry forward tax assets generated in early years to offset profits in later years as a way to encourage long-term investment activity. This survey is intended to provide insights on the expenditures and operations of VC-backed startups to better understand why so many of the country's most innovative companies emerge from the startup ecosystem.

The survey was conducted using web-based surveys between November 23 and December 18 of 2020. 232 useable responses were collected. The complete questionnaire along with results shown in aggregate form are presented below.



Questionnaire

Q1: How many employees currently work at your company?

- 55.2% 1. 1 to 19 employees
- 16.8% 2. 20 to 49 employees
- 12.9% 3. 50 to 99 employees
- 12.9% 4. 100 to 499 employees
- 2.2% 5. 500 to 999 employees
- 0% 6. 1,000 to 1,499 employees
- 0% 7. 1,500 employees or more

Q1A: How many years did it take for your company to grow to more than 1,500 employees?

- 1. Less than 1 year
 - 2. 1 to 2 years
 - 3. 2 to 3 years
 - 4. 3 to 4 years
 - 5. 4 to 5 years
 - 6. More than 5 years
- NO RESPONSES, i.e., no company had more than 1,500 employees.

Q2: Was your company's net profitability **during the last fiscal year** less than \$0?

- 85% 1. Yes
- 15% 2. No

Q2A1: Prior to your company achieving break even or positive net profitability, how many years did your company experience negative net profitability?

- 27.3% 1. Less than 1 year
- 15.2% 2. 1 to 2 years
- 6.1% 3. 2 to 3 years
- 9.1% 4. 3 to 4 years
- 9.1% 5. 4 to 5 years
- 33.3% 6. More than 5 years

Q2A2: Prior to your company achieving break even or positive net profitability, approximately how large (**on average**) was your company's annual net operating loss?

- 38.2% 1. Less than \$100,000
- 5.9% 2. At least \$100,000 but less than \$500,000
- 11.8% 3. At least \$500,000 but less than \$1 million
- 29.4% 4. At least \$1 million but less than \$5 million
- 5.9% 5. At least \$5 million but less than \$10 million
- 8.8% 6. At least \$10 million but less than \$25 million
- 0% 7. \$25 million or more

Q2A3: Prior to your company achieving break even or positive net profitability, approximately how large was your company's **cumulative** net operating loss?

- 22.7% 1. Less than \$500,000
- 0% 2. At least \$500,000 but less than \$1 million
- 18.2% 3. At least \$1 million but less than \$5 million
- 9.1% 4. At least \$5 million but less than \$10 million
- 13.6% 5. At least \$10 million but less than \$25 million
- 36.4% 6. \$25 million or more

Q2B: For how many years has your company experienced net negative profitability?

- 15.7% 1. Less than 1 year
- 14.1% 2. 1 to 2 years
- 16.2% 3. 2 to 3 years
- 10.6% 4. 3 to 4 years
- 11.1% 5. 4 to 5 years
- 32.3% 6. More than 5 years

Q3: Of your company's total annual expenses **during the last fiscal year**, how much was spent on compensation, including payroll, health care and other benefits, and independent contractors?

- 6.1% 1. 1% to 20%
- 7.0% 2. 21% to 30%
- 14.8% 3. 31% to 40%
- 11.3% 4. 41% to 50%
- 8.7% 5. 51% to 60%
- 17.4% 6. 61% to 70%
- 14.8% 7. 71% to 80%
- 12.6% 8. 81% to 90%
- 3.0% 9. 91% to 100%
- 4.3 10. None

Q4: Of your company's total annual expenses **during the last fiscal year**, how much was spent on research and development?

- 21.6% 1. 1% to 20%
- 13.7% 2. 21% to 30%
- 14.1% 3. 31% to 40%
- 7.9% 4. 41% to 50%
- 9.3% 5. 51% to 60%
- 7.0% 6. 61% to 70%
- 6.6% 7. 71% to 80%
- 7.5% 8. 81% to 90%
- 9.3% 9. 91% to 100%
- 3.1% 10. None

Q5: **As a percentage of total expenses**, which of the below best describes how much your company spent on research and development **during the last fiscal year** compared to how much it spent 5 years ago?

(If your company is younger than 5 years, please compare current R&D spending with R&D spending just after your company's founding.)

- 33.0% 1. Much more
- 16.3% 2. Somewhat more
- 35.6% 3. About the same
- 10.3% 4. Somewhat less
- 4.7% 5. Much less

Q6: Would your company benefit from the proposal to monetize **Net Operating Losses ("NOLs")**?

- 94.0% 1. Yes
- 6.0% 2. No

Q7: Would your company benefit from making **R&D tax credits** refundable and advanceable?

- 91.8% 1. Yes
- 8.2% 2. No

Q8: When was your company founded?

- 10.7% 1. Less than 1 year ago
- 13.7% 2. 1 to 2 years ago
- 13.7% 3. 2 to 3 years ago
- 8.6% 4. 3 to 4 years ago
- 10.7% 5. 4 to 5 years ago
- 42.5% 6. More than 5 years ago

Q9: What is the primary industry of your company?

- 13.0% 1. Business Products and Services (B2B)
- 12.1% 2. Consumer Products and Services (B2C)
- 1.7% 3. Energy
- 2.2% 4. Financial Services
- 6.9% 5. Healthcare
- 16.9% 6. Medtech
- 20.3% 7. Biotech
- 18.2% 8. Information Technology
- 2.6% 9. Materials and Resources
- 0.4% 10. Cleantech
- 5.6% 11. Other

Q9A: In the previous question, you selected "other" as your company's primary industry. In your own words, could you please describe your company's primary industry?

- Semiconductor
- Central lab services for clinical research
- Mobility
- Robotics
- ADUs and small homes installation, leasing, and management
- Telecom
- Embossing
- Agriculture technology
- Security
- Edtech
- Education technology
- Plant-based food, health, and wellness
- Aerospace and defense

Q10: In what state is your company's headquarters located?

0%	1. AK
0%	2. AL
0%	3. AR
0.4%	4. AZ
39.0%	5. CA
1.3%	6. CO
1.8%	7. CT
1.8%	8. DE
0.9%	9. FL
0.4%	10. GA
0%	11. HI
0.4%	12. IA
0%	13. ID
2.6%	14. IL
0%	15. IN
0%	16. KS
0.4%	17. KY
0%	18. LA
10.1%	19. MA
2.6%	20. MD
0.4%	21. ME
0%	22. MI
3.9%	23. MN
0.4%	24. MO
0%	25. MS
0.4%	26. MT
1.8%	27. NC

0%	28. ND
0%	29. NE
0.9%	30. NH
1.8%	31. NJ
0.4%	32. NM
0%	33. NV
7.5%	34. NY
0.9%	35. OH
0%	36. OK
1.3%	37. OR
1.3%	38. PA
0.4%	39. RI
0.4%	40. SC
0%	41. SD
2.2%	42. TN
7.0%	43. TX
0.4%	44. UT
1.8%	45. VA
0%	46. VT
3.5%	47. WA
1.3%	48. WI
0%	49. WV
0%	50. WY
0%	51. Other (e.g., DC, Puerto Rico)