Seven Innovation Policy Ideas to Spark an American Recovery

As Congress and the President consider ideas to boost the economy, CONNECT has identified seven ready-to-go ideas that can promptly pass Congress and be signed by the President. These seven innovation policy ideas will provide a quick injection of capital and talent into the innovation ecosystem allowing emerging companies to thrive and create jobs while also increasing federal revenue towards deficit reduction.

CONNECT presented some of these ideas as concepts back in January when we released our "Innovation Agenda for the 112th Congress." As those concepts continue to move through the legislative process, they deserve continued focus because of their significant job-creation potential. Many of them are common-sense changes that have already garnered bi-partisan support. Prompt action on these ideas will demonstrate to the American people that our leaders can find common solutions that make a substantial impact toward economic recovery.

Increase the monetary cap on direct public offerings by small companies to allow new opportunities for emerging companies to raise capital

Regulation A was adopted by the SEC under the Securities Act to provide smaller companies a less burdensome process by which to raise capital through direct public offerings. Unfortunately, the cost of compliance with regulatory burdens makes the $5 million cap unworkable and underutilized.

Proposed legislation will increase the outdated Regulation A cap from $5 million to $50 million to allow emerging companies to raise new capital through "mini-offerings" while still protecting investors. The House Financial Services Committee has already passed H.R. 1070—the Small Company Capital Formation Act—with bipartisan support. The Senate recently introduced a similar version, S. 1544, with bipartisan cosponsors.

In his address to Congress on jobs, the President also signaled support for the idea of raising the Regulation A cap.

Raising the cap to $50 million will open a new avenue to numerous emerging companies that would like to make offerings greater than $5 million but are still too young for offerings greater than $50 million. Unleashing these young companies, including those stuck in the proverbial "valley of death," will allow a short-term jolt in capital flow while also improving the climate for long-term growth and job creation.

Incentivize the investment of foreign earnings into emerging technology research and commercialization

It is no secret that U.S. companies are sitting on over a trillion dollars in foreign earnings that are subject to a 35% total tax rate if they are returned and put to use in the U.S. This high tax rate acts as a deterrent to bringing that capital back to the U.S. while simultaneously encouraging America's global competitors to provide multiple financial incentives to put that money to use in manufacturing, R&D and job creation in their countries. Instead of allowing foreign earnings of U.S. companies to be used by our global competitors to improve their competitiveness and close their innovation gap against the U.S., Congress and the President should incentivize the investment of those foreign earnings back to the U.S. in a way that will infuse capital into early-stage innovation and emerging technologies. H.R. 1036—the Job Creation and Innovation Investment Act of 2011—does exactly that.

H.R. 1036 allows capital to flow to early-stage innovation by cutting the tax rate to 0% for foreign earnings returning to the U.S. to fund research and development including sponsored, purchased or collaborative R&D, funding proof of concept centers, early-stage venture investments, expansion of facilities, or to create/expand U.S. manufacturing including contract manufacturing. The bill allows the return of foreign earnings at a 5.25% rate otherwise. Bringing the earnings back to the U.S. to further catalyze innovation will create jobs while strengthening America's edge in global innovation.

Encourage more Angel investment into start-up and emerging companies

Angel investing has proven to be a key driver in financing efforts of start-up and emerging companies especially in the tech sector. Individual angels, also known as accredited investors, regularly join with other angels to pool resources to provide a greater financial impact for the companies receiving investments.

S. 256—the American Opportunity Act—encourages angel contributions by providing a 25% federal income tax credit for investing in early stage small businesses. The credit would augment the capital angels are currently investing in emerging technologies while also expanding the pool of angels, activating new capital to support more start-up companies moving to stability.

Reauthorize the SBIR program

The innovation community knows that the Small Business Innovation Research and Small Business Technology Transfer programs can be advantageous to start-up formation. The SBIR/STTR programs have a proven track record and have led to technologies that have improved lives and built major corporations. These competitive grants help start-up companies access early-stage capital to develop technologies that oftentimes serve a national purpose in public health, defense and homeland security.

The House and Senate are negotiating an agreement on SBIR/STTR reauthorization that will expand the field of start-up companies that can apply and that have already shown viability by securing some private investment. Leadership in both parties should encourage negotiators to produce an agreement in short order so the program can have certainty and a long-term focus on encouraging start-up growth.

Retain top-level talent from American universities

As the American education community continues to revamp the country's STEM education system to produce more qualified scientists and engineers, U.S. visa policies force top-level talent from American universities to return to their home country where they become our global competitors.

H.R. 399—the Stopping Trained in America Ph.D.s from Leaving the Economy Act of 2011 (the STAPLE Act)—reverses this anti-competitive workforce policy by exempting from visa quotas foreign-born highly-skilled STEM Ph.D.s that stay to work in the U.S. Retaining American-trained talent to help American companies grow further strengthens U.S. competitiveness.

Facilitate the growth of start-up companies by immigrant entrepreneurs

Some of America's biggest companies were started by immigrant entrepreneurs. The American landscape is replete with stories of immigrants overcoming odds to come to the U.S. to make a better life. U.S. immigration policies create too many barriers for modern-day immigrant entrepreneurs to successfully build companies and create jobs in the U.S. This pool of talent, that would like to legally come to our shores, remains overseas, generating new competitors to American companies.

The StartUp Visa Act of 2011—S. 565/H.R. 1114—extends a temporary entrepreneur visa to foreign-born entrepreneurs that have backing from qualified American investors. H1-B visa holders could also qualify for the entrepreneur visa as well as foreign entrepreneurs that already have a market presence in the U.S.

Solidify recently passed provisions in the Small Business Jobs Act of 2010 to provide long-term certainty to small businesses and their investors

The Small Business Jobs Act of 2010 (P.L. 111-240) included a provision which temporarily suspended the capital gains tax for investments made in small businesses that are held for five years. The Act also included a provision allowing small and medium-sized businesses to access various business credits without negative tax consequences. These provisions were passed on a temporary basis and are set to expire soon.

Instead of another temporary extension that will need to be renewed annually, creating more uncertainty as to whether the credits can be utilized, Congress and the President should make these two provisions permanent. Doing so will ensure that start-up companies can attract more long-term investments and plan for the future which will lead to more start-up viability.

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CONNECT is an innovation accelerator, birthed out of the University of California—San Diego, that is dedicated to creating and sustaining the growth of innovative technology and related businesses. Since 1985, CONNECT has assisted in the formation and development of *over 3,000 companies and is widely regarded as one the world's most successful regional programs linking inventors and entrepreneurs with the business, legal and financing resources they need to sustain viability and business vibrancy.*

CONNECT focuses on research institution support, business creation and development, entrepreneurial learning, access to capital, protection of intellectual property, public policy advocacy, awards, recognition and networking. More than 40 countries and regions have adopted the CONNECT model, including New York City, the U.K, Sweden, Norway, Denmark, Australia and India, and most recently in New York City, Bogota, Colombia and Saudi Arabia.

CONNECT is the recipient of the 2010 Innovation in Economic Development Award in the "Innovation in Regional Innovation Clusters" category presented by the U.S. Department of Commerce's Economic Development Administration.

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