

GOVERNMENT’S POLICIES TO PROMOTE BUSINESS ANGEL INVESTING

An angel investor is a wealthy person who invests his own money, personal knowledge and time into SMEs with high growth potential, following higher return. Angel investors are profit seeking investors who are not pleased with average market profit. For that reason, they aim to finance the early-stage and start-up firms, which are mostly innovative and high-tech firms, and their employment and growth potential are expected to be high.

SMEs in Turkey have a limited access to finance because of their small size, lack of enough collateral required for traditional financing sources, and sometimes due to low financial literacy of the entrepreneurs. They need mentorship to develop their businesses. Furthermore, financial institutions are reluctant to provide credits for start-up or early stage companies as they bear very high risk. According to the World Bank Survey (2008), the biggest problem of SMEs in Turkey is access to finance. Even, some of the innovative ideas may remain in the idea stage on account of lack of access to finance. Alongside to serious problems, SMEs have other serious problems such as mentorship serving, professional management and forming institutional capacity.

The Scope of Tax Incentives

The Undersecretariat of Treasury introduced a new system to encourage angel investments in Turkey. The law regarding the promotion of angel investments was enacted in Turkey in 2012 and the system was launched in 2013 with the secondary legislation. It aims to introduce a new instrument for SMEs at their early development stages and having funding difficulties, increase professionalism and improve business culture and ethics among angel investors make angel capital an institutionalized and trustworthy source of finance, make angel investments attractive through state supports.

In practice, Turkish Treasury licenses business angels who want to benefit from tax incentives for their investments. Accordingly, 75% of the participation shares of qualifying Turkish resident joint stock companies (private venture companies) held by “business angels” can be deducted from the business angels annual income tax base in the calendar year the shares are held for at least two years. The maximum annual deductible amount is 1 million TL.

Deduction ratio is applied as 100% for those angel investors investing into the companies whose projects are supported by Ministry of Science, Industry and Technology and The Scientific and Technological Research Council of Turkey and Small and Medium Enterprises Development Organization in the last 5 years. In order to get a deduction from their taxable income, investors have to meet the following conditions;

- The requirements of the Angel Investment Law and regulations,
- Acquired stocks to be held at least 2 years.

Business angels cannot directly or indirectly be controlling shareholders of the qualifying private venture company in which they invest, either mutually or personally. Moreover, licensed business angels cannot be shareholders of qualifying private venture companies which are under their own or their relatives' control or supervision or the companies that they are directly or indirectly related to in terms of capital.

Who can be an angel investor?

License is not necessary to be an angel investor. It's just a gateway to the angel support scheme. Since January 2014, license applications have been taken on accredited angel networks. There are two criteria to get a license.

1- High net worth investor

- Having an annual gross income above TL 200.000 or,
- Possessing net assets above TL 1.000.000.

2- Experienced investor

- Minimum 2 years of experience as fund or portfolio manager in a bank or financial institution or director in the banks or financial institutions in the departments of SMEs financing, project or institutional financing areas, and directors in VC's or,
- Minimum 2 years of experience during the last 5 years as deputy director or higher status in the companies with minimum TL 25.000.000 annual turnover or,
- Minimum 1 year membership in the local business angel networks and having shares in minimum 3 SME's described in the decree article 26 or,
- Having investments in 3 technology companies supported by incubators or techno-centers with minimum TL 20.000 investments for each.

Investment Limitations

Licensed angel investors, except co-investments can invest maximum 20 different anonymous companies individually during their 5 year license period. Investments over the limits cannot take tax incentive.

The price of the shares of each qualifying private venture company to be acquired by each angel investor cannot be less than 20.000 TL and more than 1.000.000 TL annually. However, the total investment of an angel investment in different venture capital companies can exceed this limit. Nevertheless, co-investments can be a maximum of 2.000.000 TL.

In order to benefit from government support, business angels must invest in the SMEs meeting the following criteria's:

- No more than 5.000.000 TL annual turnover,
- Maximum 50 employees,
- Not under control of another company,
- Not an affiliated company,
- Not a listed company in the stock exchange,
- Last but not the least;
- Operate in certain sectors defined by the Treasury.

Angel Investor Networks and Accreditation Criteria

The experiences with functioning angel networks show that the limiting factor is the project match between angels and startups. In this regard, one of the efficient ways to increase angel investments is to build a network that gets angel investors and entrepreneurs to together, therefore increase both the funding capacity and investment capability. For this reason Turkish Treasury brought an accreditation mechanism for business angel networks that are willing to work in the areas of application for licensing and tax incentive process, also providing data about investments of their members.

Angel Investor Networks as described in legislation is an association founded according to Turkish Civil Code, Law of Obligations and Turkish Commercial Code. And they are

accredited and ordered by Turkish Treasury. In order for accreditation the networks must meet the following conditions:

- Having a convenient physical place to meet with entrepreneurs,
- Employing minimum one expert to process the applications of entrepreneurs,
- Having minimum 5 licensed business angels and 5 angel investments of those members in total,
- Having a functional web page and data base,
- Signing the protocol with Treasury.