BUSINESS ANGELS AND INVESTMENTS

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ABSTRACT: *In this paper we have synthesized a part of legislative and conceptual elements linked to a new model of investors which is increasingly publicized in Romania, business angels. In the first part of the paper we have presented theoretical notions related to the concept of investments and to the importance of the investment decision at managerial level. Modern investments regarding, in particular, the launch of some products and services as well as the start-up of companies are dependent on the source of funding that can take many forms, one of them being that of business angels. Thus, the legislative framework in Romania represents an opportunity not only for those looking for sources of financing but also for investors seeking more flexible and more advantageous ways to place capital. Thus, at the end of the paper we have tried to reveal the main fiscal facilities from EU member countries in order to be studied by any business angel and the most important organizations offering information on the business angels' portfolio.*

KEY WORDS: *investors investment decision business angels' advantageous ways, fiscal facilities*

JEL CLASSIFICATIONS: *D21, L26.*

1. INVESTMENT DECISION

In a broad sense, investments identify with the contributions of individuals and/or legal entities. In a narrow sense, investments represent an asset purchased in order to produce capital gain at the time of sale or a steady income or a combination of both.

From economic point of view, investments can guarantee the improvement of technological processes, equipping of workplaces with high-performance machines, expanding the use of information technology for automatic data processing, etc. economic and social investments may enhance the use of material and labour resources

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of the society having an important role in the economic and social development of the country, a role that lasted throughout all historical periods of mankind.

Even if definitions are multiple, their meaning is the same, namely, laying out cash or capital in order to gain future profit, be it a steady income in the long run or a capital gain obtained upon reselling the asset.

From managerial perspective, a special category of far-reaching decisions on the overall activity of the company and its current and future performance is represented by *investment decisions*.

Investment decisions aimed at achieving strategic objectives of company development especially of its investment policy on a medium and/or long period of time. Investment decisions, basic components of the investment decisional subsystem, involve a substantial number of *special features*, such as:

a) *time*. The investment decision assures/guarantees the company's future for a long period of time; that is why both efforts and estimated effects of the investment process relate generally to a long period of exploitation of the good resulted from the investment;
b) *uncertainty and risk*. Inherent in any investment, the risk component is fed by fluctuations of supply and demand on the market, by technical progress, by the possibility of obtaining forecasted financial flows, by instability of the business environment, long periods of time and last but not least by the excessively prudent behaviour or even lack of intuition characteristic of some investors;
c) *economic profitability*. Due to anticipated future profitability of the adopted projects, investment decisions will ensure the quality and the desired level of performance in the activity of existing companies; will maintain the solvency and the financial equilibrium, appropriate protection against risks, etc.
d) *the strategic element of the decision* makes its presence felt particularly in expansion projects aimed at far-reaching goals such as the conquest of new markets, setting up new companies, determining the optimum size and location, the choice of technology, types of equipment to be purchased and their origin etc.
e) *the tactical element* characterizing investment decisions related to upgrades or re-equipment, having as main objective the maintenance of the company's profitability;
f) *the irreversibility of the decision* represents an essential feature which separates it from other types of decisions and resides in the fact that the resulting effects of the implementation of the investment decision can only be adjusted by any other decision which implies additional costs;
g) *withdrawing from the economic circuit,* for a certain period of time, of significant quantities of materials, manpower, financial resources represents a defining characteristic of the investment decision. They will be reintroduced into the economic circuit only after the completion and implementation of the established investment objectives.

The adoption of such a decision takes a special form considering the two perspectives of an investment: the inside investment - with or without internal sources of funding - and the external investment which requires an external source of financing meaning not only a classic loan or a leasing from a banking institution but also a controlled investment such as venture capital or business angels.

It is obvious that the choice of one of the two forms of financing is the result of a complex system of factors such as the need and the opportunity of the business, taxation (which implies analyses based on net financial flows, after taxation), the timing of the investment, the level of competition, the regional or national business environment, the legislation regarding the stimulation of investments etc.

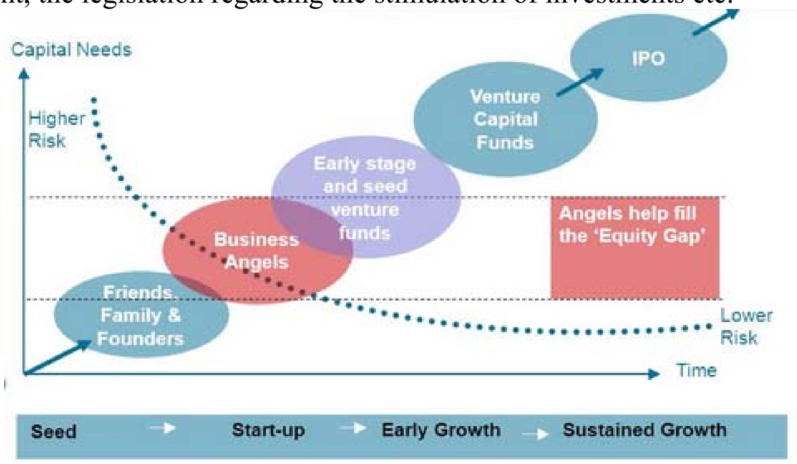

Figure 1. Financing sources

If we take into account the source of the necessary capital, it is noted that, depending on the time of financing and on the availability in relation to the risk, in the first instance the seed capital is due to own resources and loans from family and friends which are subsequently supplemented by business angels, venture funds or Initial public offering (IPO).

2. LEGISLATIVE AND CONCEPTUAL FRAMEWORK OF BUSINESS ANGELS

The term "angel" originally comes from Broadway theatre (New York), where it was used to describe wealthy individuals who provided money for theatrical productions. Nowadays angels are known to support many successful businesses such as: Amazon.com, Apple, XING, Starbucks, Facebook and Twitter.

Business Angels are individual investors, interested in providing capital for the business plan of small and medium size start-up companies, in exchange for ownership equity. In 2015, Romania regulated the conditions under which individuals, angel investors can benefit from tax incentives, as a result of acquiring shares due to investments in small companies. According to the legal framework, i.e. the Law 120/2015 on stimulating individual investors - business angels, any person can become an individual investor - business angel provided several conditions are met cumulatively:

- he is a person outside the company who becomes an associate due to the invested capital. Thus, it is necessary to issue new stock shares and business angels will purchase them at their nominal value;
- the amount can range between Euros 3.000 and Euros 200.000 which will be paid through the banking system and it will be recorded in the accounts of the company;
- the amount of money invested by business angels facilitates the accomplishment of the main objective of the company and of the strategic objectives mentioned in the business plan.

With regard to the share of capital belonging to a business angel there is a limit, i.e. a maximum of 49% of the share capital, should there be a single investor or several investors. They will conclude an investment agreement, registered with the Trade Registry, which mentions the quality of business angles and the increase in the share capital as well as the issuance premium resulted. The quality of business angels is maintained throughout a period of 3 years from the date of registration and the shares cannot be sold during this period; within a closed joint-stock company, they can only be assigned, together with the invested capital, to another business angel who at the time of the transfer of rights, does not have the status of associate, the latter benefiting from all tax advantages for the rest of the remaining period.

3. FACILITIES GRANTED TO BUSINESS ANGELS

The investment decision of a business angel is determined by the advantages the legal framework has to offer. Sustainable growth requires innovation. Business angels and other early stage investors support innovation by funding and mentoring young innovative companies during their most risky stage. Fiscal incentives are used to attract investments, to help private investors diversify their portfolio and invest into early stage/business angel investing. Furthermore, governments and policy-makers are increasingly conscious of the importance of incentives to stimulate the development of innovation.

Thus, in Romania, fiscal incentives shall be granted provided the total value of the amounts for which facilities are applied may not exceed the amount of investment made by all business angels -individual investors. The main facilities are:

- exemption from dividend income tax, for a period of 3 years from the time of acquiring the shares, in case of the dividends corresponding to the stock shares owned by business angels;
- business angels are exempted from tax on profits resulting from the transfer of stock shares, if such a transfer takes place after the period of at least three years following the acquisition.

In order to protect business angels, tax incentives and innovation in business, business angels cannot finance and get facilities by virtue of this Act in any field of activity. Thus, the Romanian legislation makes exceptions for businesses in the fields of banking and finance, real estate, gambling, sports betting, steel manufacturing or marketing, coal production or marketing; production or marketing of weapons, ammunition and explosives, tobacco, alcohol, controlled substances, plants, narcotic drugs and psychotropic substances, advisory activities of any kind. As regards angel investments in Europe, the Compendium of Co-investment Funds with Business Angels elaborated by The European Trade Association for Business Angels, Seed Funds and Early Stage Market Players, summarizes information related to income tax, capital gains and dividends for EU member countries. (Annex 1) There are diverse opinions amongst angels, policymakers and the public about the impact of tax credits on angel investment and sustainable entrepreneurial start - ups. Many angel investors are enthusiastic about tax credits because credits increase angels' return on investment. However, the economic benefits of the investment tax credit to states are unknown because of the lack of data and the difficulty of measuring economic impacts.

4. ORGANIZATIONAL INVOLVEMENT IN THE DEVELOPMENT OF ANGEL INVESTMENT

An angel network is a group typically composed of somewhere between 10 and 150 individuals who have a certain amount of discretionary income to invest in early stage, small businesses. In our country, information about such a network of investors with direct interest in the field of stimulating investments is relatively recent, dating back 5 or 7 years. Some of the well-known organizations of this kind are:

- **Business Angels Romania** is a member of the EBAN (The European Trade Association for Business Angels, Seed Funds and Early Stage Market Players), which currently comprises 141 members from 41 countries and agrees with its essential objective, namely to expand the promotion of angel investments as an appropriate choice for start-up companies. The organization aims to provide information and expertise that helps investors and entrepreneurs to understand the market and business environment trends so as to facilitate access to relevant sources of financing.
- **VentureConnect** was set up in 2010 by a group of IT/on-line entrepreneurs and it organizes programs dedicated to the entrepreneurial environment among which it is worth mentioning Venture Mentoring and Angel Connect business angel community.
- **TechAngels** is facilitating the development of tech businesses from South-Eastern Europe through investment, expertise and connections. The organization has the role help entrepreneurs evaluate their business and put them in contact with the most affluent investors from our network, in order to improve their success rate.
- **AngelConnect** is a community dedicated to business angels active in Romania and Eastern-Europe. The benefits of joining AngelConnect are numerous, ranging from detailed knowledge of companies in need of smart investments and various other investment opportunities, to networking with other potential investors or learning about new developments in various industry verticals.
- The **World Business Angels Association** (WBAA) is an international, not-for-profit organization whose mission is to stimulate the exchange of knowledge

and best practices in the field of global angel capital financing for high growth and innovative start-ups.

5. CONCLUSIONS

Entrepreneurs play an important role in any healthy economy. Lately, the precarious investment environment has made this role to be more visible and more obvious particularly through the creation of jobs when the unemployment rate is high or through significant investments including during times of recession. In the 21st century, in their stages of development in a globalized society, companies have an increasingly diversified financing portfolio for their activities or investments. In this context, the paper presented the new form of investors, the business angels respectively and it revealed their importance in the development of creative businesses, particularly start-ups.

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Annex 1

Country	Income tax		Capital Gains		Dividends	
	Individual	Corporate	Individual	Corporate	Individual	Corporate
Austria	Up to 50%	25%	Up to 25	Subject to corporate income taxes	25%	Tax free
Belgium	Up to 50%	33 % + surtax of 3%	Generally not taxed	Subject to corporate income taxes	25%	95% exempt.
Bulgaria	10%	10%	10%	Subject to corporate income taxes	10%	10%
Croatia	Up to 40%	20%	4%	20%	12%	12%
Czech Republic	15%	19%	15%	Subject to corporate income taxes	15%	15% but to many exceptions
Denmark	Up to 55.56%	24,5% in 2014, 23,5% in 2013	27% to 42%	24,5%	Up to 42%	Exempt
France	Up to 45% + a surtax up to 4%	33,33%	16%	Subject to corporate income 34,43% - 36,1%	Taxed as general taxable income plus social contributor s	95% Exempt
Germany	Up to 47,5%	15%	Taxed at individual tax rate	95%	Taxed at individual rate or 26,375%	95% Exempt
Greece	Up to 42%	Up to 33%	15%	26%	10%	Exempt
Hungary	16%	19%	16%	19%	16%	Exempt
Italy	Up to43% + regional tax rate up to 2,63% +municipal tax rates up to 0,9%	27,5% + regional tax (generally 3,9%)	Taxed at individual rate	95% exempt	Taxed at ordinary individual income	50,26% exempt
Latvia	24%	15%	15%	15%	10%	Exempt
Lithuania	15%	15%	15%	15%	15%	15%
Luxemburg	Up to 40%	21%+7%+6 % to 12% municipality	Up to 43,6%	Subject to corporate income	Up to 43,6%	Subject to corporate income tax
Poland	Up to 32%	19%	19%	19%	19%	Exempt.
Portugal	Up to 48%	23% plus municipal tax	28%	Subject to corporate income	28% or 50%	23% or 25%
Romania	16%	16%	16%	16%	16%	16%

Russia	13% for resident or 30% non-resident	20%	13 %	Subject to corporate income	9% for resident or 15% non-resident	9% for resident or 15% non-resident
Serbia	10%, 15%, 20%	15 %	15 %	15 %	15%	Or exemptions
Slovak Republic	Up to 25%	22%	Up to 25 %	22%	Exemption s	Exemptions
Slovenia	Up to 50%	17%	20% to 5 % depending on holding period	Subject to corporate income a 50% exempt	30%	Exemptions
Spain	Up to 48%	28%	20 % to 24%	Subject to corporate income.	21%	Exemptions
Sweden	Up to 57%	22%	30%	Subject to corporate income	30%	Exemptions
Netherlands	Up to 52%	Up to 25%	25% or 1,2 % of the fair market value	Subject to corporate income	25% or 1,2 % of the total net value	Exemptions
Turkey	Up to 35%	20%	Up to 35%	Subject to corporate income	Up to 35%	Exemptions
United Kingdom	Up to 45%	21% (reducing to 20% from 1 April 2015)	18% or 28%	Subject to corporate income	Up to 37,5%	Exemptions