NSBA National Small Business Association

Issue Brief

Equity Capital & Crowdfunding

Problem:

One of the most prominent challenges for small businesses is raising adequate capital to launch new ventures. Entrepreneurs have traditionally relied upon funding from capital providers such as banks, venture capitalists, angel investors, or contributions from friends and family members. Crowdfunding allows entrepreneurs to directly appeal to the general public through online platforms for help in getting their innovative ideas off the ground. Yet, equity crowdfunding platforms do not all follow the same model, charging different fees, offering different types of financial securities, and specializing in different sectors.

- Title III of the JOBS Act authorizes equity crowdfunding—allowing small businesses to raise up to $1 million per year, through intermediaries facilitating crowdfunding transactions.
- According to the regulations, an individual investor may not contribute more than $100,000 in any 12-month period across all crowdfunding offerings. This cap is the same regardless of whether an investor is accredited or non-accredited. Additionally, the vast majority of Americans will face limits even lower than that, largely dependent on their income and assets.
- The JOBS Act sets high transaction costs required to raise $1 million. Issuers will find themselves with bills in the tens of thousands of dollars right out of the gate to pay for legal and accounting services—and will then have to spend at least a couple thousand dollars after fundraising to comply with ongoing reporting requirements.
- Transactions must be conducted through an intermediary that either is registered as a broker-dealer or a "funding portal." A funding portal must register with the SEC and be subject to the SEC's oversight. Furthermore, for companies that raise over $500,000, significant disclosures in the form of audited financials are required.

Solution:

Due to COVID-19 lockdowns, equity crowdfunding really took off in 2020, raising $214.9 million in 2020 (a 105 percent growth from 2019) for 1,035 new companies. With better underlying legislation and better implementing regulation, investment crowdfunding can provide a useful contribution to capital formation for the smallest companies. Properly done, crowdfunding can provide small, quick injections of funds into early stage or small companies.

- SEC should issue rules in-line with the intent of the law and avoid creating costly new regulatory regimes in the process.
- Lawmakers should clarify and ease costly and complex registration requirements on small businesses seeking investment.

1156 15th Street NW, Suite 502 | Washington, D.C. 20005 | www.nsba.biz | info@nsba.biz | 202-293-8830