

The Vermont Enterprise Account

Proposed by gubernatorial candidate John McClaughry, September 14, 1992

Restarting Vermont's stagnant economy requires a creative new investment vehicle that will stimulate investment by entrepreneurs: the VERMONT ENTERPRISE ACCOUNT (VEA).

The VEA will be an individual investment fund with these characteristics:

- Any individual or corporation may create and manage a VEA
- A Vermont financial institution (bank, thrift institution, insurance company or licensed brokerage) must serve as custodian of the account.
- Contributions into the VEA are not deductible from Vermont income tax.
- The VEA can invest in any qualified Vermont business as directed by the creator of the account. A qualified Vermont business is a business principally conducted in Vermont, other than purely financial transactions and institutions or the buying and selling of undeveloped land. This definition includes manufacturing, service industries, tourism, and agriculture. It also includes investments in securities of regional economic development corporations like GBIC, RIDC, BDCC, GMEDC, NCIC, and CVEDC.
- A VEA could not invest in the Vermont SBIC or Vermont Venture Capital Fund, for which other state incentives are offered.
- Investments may be in the form of equity or debt.
- VEA funds not invested in qualified Vermont businesses, in excess of some amount to be prescribed, will be subjected to a small quarterly demurrage tax to encourage prompt reinvestment in qualified Vermont business.
- All dividends, interest, and capital gains earned by the VEA may be retained in the account without incurring Vermont tax liability. The VEA creator may withdraw funds as desired, subject to Vermont income tax (including nonresident tax filings); but after three years amounts withdrawn from a VEA will be partially exempted from Vermont income tax. An illustrative exemption schedule would be \$10,000 per year, to a maximum of \$50,000 over five years.
- The custodian agreement will provide for satisfaction of Vermont income tax liabilities before VEAs can be liquidated or transferred out of state.

The State will also make its small business offering requirements compatible with the new SEC Rule 504 (Small Business Initiative) so that compliance with that Rule will assure automatic compliance with Vermont law.

The VEA proposal will not cause any initial revenue loss, inasmuch as funds put into a VEA are post tax dollars. The partial exemption on withdrawals made after three years will constitute a revenue loss, but only if the same amount of taxable income would have been realized in the absence of the VEA incentive.

The real advantage of the Vermont Enterprise Account will be the new opportunity it will offer to thousands of investors to invest in qualified Vermont businesses, avoid current-year taxation on the return on that investment, reinvest earnings in Vermont businesses, and realize a tax exemption on eventual withdrawals.. It will be especially attractive in that investors will not be required to participate³ in a state-designated investment company, but will be able to create and manage their own tax-favored investment accounts. It will also expand the deposit base of Vermont financial institutions.

That opportunity will make capital more readily available to job-creating businesses and expand Vermont's state and local tax bases.