

CAMS Seminar | Accounting Research Workshop

Winter Term 2018/19

- Speaker: Associate Professor Alexander Edwards
- University: Rotman School of Management, University of Toronto, Canada
- Research: Taxation and Capital Markets
- Date: November 6th, 2018
- Topic: Capital Gains Taxation and Funding for Start-Ups
- Abstract: We examine how capital gains taxes affect investment in start-up (i.e., pre-IPO) firms. Using data on capital raised by start-up firms in individual funding rounds, we estimate the effect of the SBJA of 2010, which implemented a full exemption from federal capital gains tax on the sale of qualified shares. Because of higher expected after-tax returns (lower future capital gains taxes), we hypothesize and find evidence consistent with this capital gains tax reduction increasing the amount of investment in start-up firms per funding round by about 12%. We also provide evidence that this effect is concentrated in start-up firms that are likely to be more financially sophisticated.



We thank Professor Edwards for the great opportunity to learn more about the effects of capital gains taxes on the investment in start-up firms. We wish him all the best and much success with the paper!