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# IT'S ALL ABOUT THE EGGS, NOT THE HEN

## Abstract:

The VC industry provides an excellent example for an industry that is based on the ability to bring together ideas and high-risk capital in a process that generates value. Of particular interest is the case where the entrepreneurs reside in one country and the investors reside in another country. There are two types of benefits; the benefits to the entrepreneurs and the investors, and the benefits to the country where the investment takes place. The first type of benefits depends on the success of the young innovative technology firms.  The second type of benefits depends on the total flow of high-risk capital from the country of the investors to the country where the investment takes place. While the benefits to the entrepreneurs and the shareholders are vastly discussed, the benefit to the hosting country is less explored. We show that the benefits are both direct, in the form of taxes and indirect as higher wages for the local skilled workforce. We use hand-picked database to estimate the total benefit to a small country that was successful in attracting international VC funding.  Our main result is that the Income tax collected from VC backed employees is about 1200% higher than the Capital tax gained from exits. This result can be translated into optimal governmental taxation scheme that is set to keep cost-benefit efficient success rate.

## Keywords:

Venture Capital Investment, Start-Ups, Economic Growth, Tax

**JEL Classification:** F39