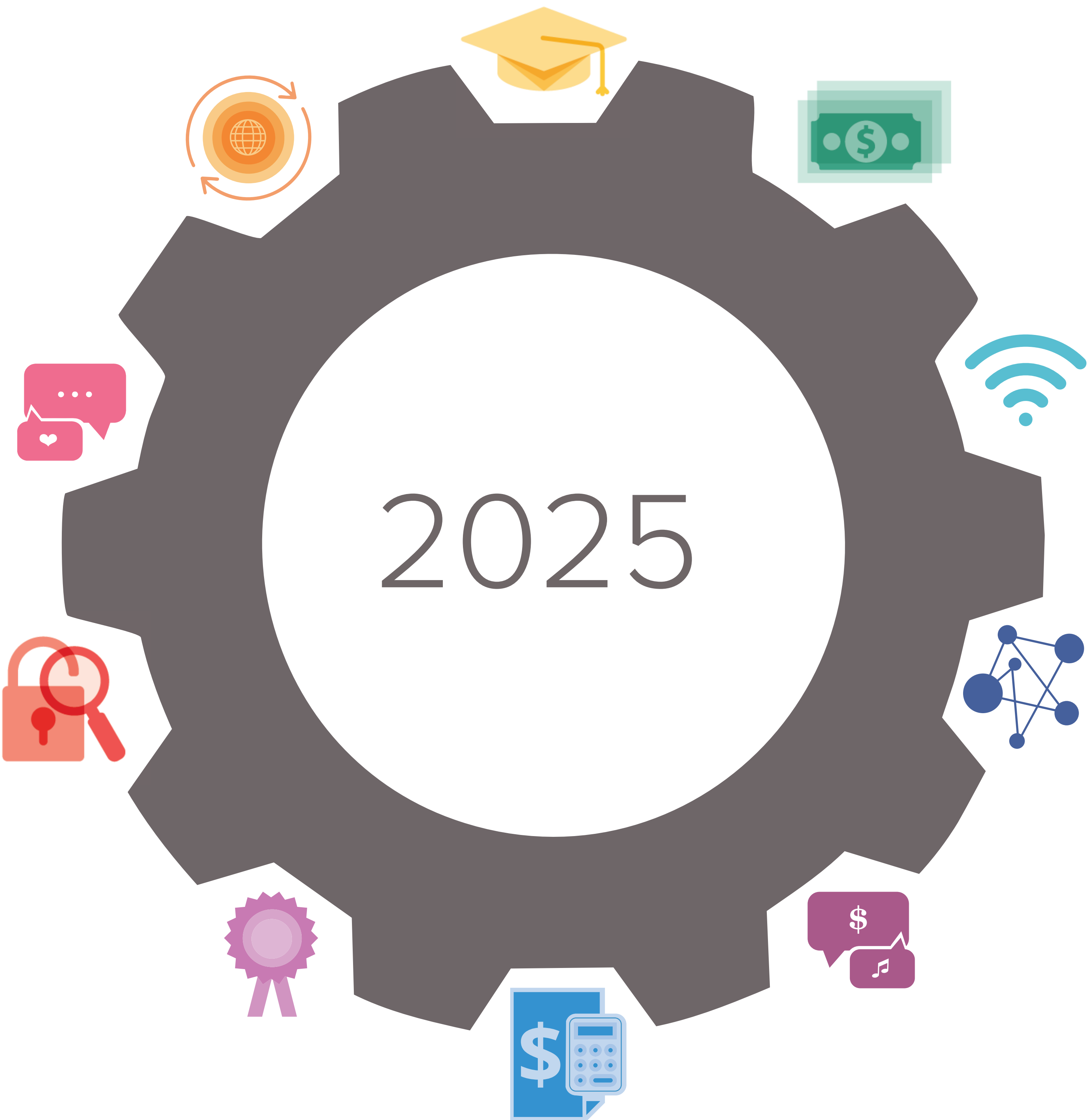
Engine

# STARTUP POLICY AGENDA

*How policymakers can help power the machine of innovation*



Engine

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# INTRODUCTION

The U.S. startup ecosystem is vast and diverse; there are small, new, technology-enabled companies touching every industry, with varying business models, in states and congressional districts all across the country, founded by entrepreneurs from all backgrounds. At Engine, we talk to startup founders about the policies that support or hinder their companies every day, and we hear a wide range of positions on an even wider range of issues.

The one consistent thing we hear from founders is that startups are always working to stretch their limited time and resources. According to our research, the average seed-stage startup (already a relatively successful company that has attracted outside funding) has about $55,000 per month to cover all of its expenses, and increasing compliance and legal costs put a serious strain on those budgets. Policy changes regarding everything from access to capital, to intellectual property, to trade (and everything in between) can radically shift the way startups make decisions about what products and services to offer, when and where to launch, and how they plan to grow. Smart, thoughtful policy facilitates and encourages startup activity, leading to more innovation and more economic and job growth.

We release this Startup Policy Agenda every year to give those working on policy an overview of the current issues and looming policy debates that impact startups. With an ecosystem this broad, no one can credibly speak for all of "Little Tech." But the perspectives of startups in every community across the country should be front and center in policy debates, even if they don't have the resources or connections to hire lobbyists. That's why Engine has existed for more than a decade as a nonprofit—not a trade association with members or an investor with portfolio companies—to elevate the voices of startups as they explain their experiences, perspectives, and policy needs themselves. Each of the following issue pages contains not just Engine's policy recommendations, but also founders in our network discussing how policy has impacted their companies.

It's a new Congress and a new administration, but supporting startups should be evergreen and bipartisan. As policymakers take up the long to-do list ahead of them—from tax reform, to immigration policy, to artificial intelligence, and much more—we hope the policy recommendations and the perspectives included here can help jump start those conversations.

# ACCESS TO CAPITAL

## WHY IT MATTERS TO STARTUPS?

Access to capital is perhaps the most critical barrier startups face when launching. Most startups launch with a combination of limited amounts of funding, often cobbled together from a mix of personal funds and family savings. Even the average seed-stage startup only has roughly $55,000 a month to cover all costs. The popular story of a small startup receiving large amounts of money from a venture capital firm is not the reality for most founders; only an estimated 1 percent of startups receive venture capital. The journey is even harder for founders of different backgrounds—including race, gender, sexual orientation, and geographical location—who often face greater barriers across the board in accessing the capital they need, from friends and family rounds, to business loans, to venture capital.

## WHAT POLICYMAKERS CAN DO?

Policymakers must continue to improve the regulatory environment in which startups operate to raise capital, balancing valid concerns about investor protections with the need for more investors from all backgrounds participating in—and benefitting from—the startup ecosystem. Policymakers should also address capital access issues with respect to federal funds, including streamlining federal grant processes which can be slow and poorly suited to the startup lifecycle, such as the SBIR program, which helps startups commercialize and needs to be reauthorized this year. Policymakers should undertake efforts to expand the investment community, so that more, and more diverse startups, receive venture and angel investment. This can be done by allowing more people to become accredited investors and expanding the allowed size of angel funds, so that more investors–especially more diverse investors–can participate. Government should specifically prioritize improving access to capital for underrepresented founders, including by ensuring access to Small Business Administration resources, identifying and rectifying discrimination in bank lending, and defending programs aimed at helping underrepresented founders.

### KEY TAKEAWAYS

- Most startups rely on a patchwork of funding sources outside of traditional venture capital.
- Policies should make it easier for startups to access capital and open up capital markets to allow more people to participate in funding early-stage companies.
- Diversifying the investor pool will allow for more participation in the startup ecosystem and will result in founders from more backgrounds receiving funding.

### ★ Startup Spotlight ★

**MITO Material Solutions**

(Indianapolis, Ind.)

Haley Marie Keith, Co-founder & CEO

Mito Material Solutions creates additives that improve the durability and toughness of legacy industrial materials so manufacturers can make lighter, stronger products.

Grant writing is a complex and time-consuming process that makes it hard for startups to participate. Feedback on grant proposals—rather than outright denials—is useful for startups because you know what you need to improve as opposed to being left frustrated and unsure if you do not receive the grant. Also, clarity on expectations for grant compliance-related issues like how the grantor wants you to do accounting related to the grant, would be beneficial.

# ARTIFICIAL INTELLIGENCE

## WHY IT MATTERS TO STARTUPS?

Recent breakthroughs in artificial intelligence build on decades of startups using AI to solve everyday problems and build innovative products. Startups are innovating at all levels of the AI ecosystem, including by building their own proprietary models, leveraging models from industry leaders, pulling in open source models, or using AI for common business functions to enhance their own efficiency. Policymakers in the U.S. and around the world are pursuing rules for AI that will shape how the technology is developed, what it can be used for, and at what cost—all impacting the competitiveness of startups—but AI policy debates are dominated by concerns about large market participants and specific uses of AI.

## WHAT POLICYMAKERS CAN DO?

Startups are key stakeholders in AI policy and policymakers at the state and federal levels should make sure that they evaluate potential AI frameworks with startups in mind and take steps to support startup competitiveness in the AI ecosystem. It's critical that AI policy conversations consider the impact any policy changes would have on the entire AI ecosystem, including startups that are developing and using AI technologies in beneficial ways. High compliance costs around things like third-party audits or licensing requirements will make it difficult for startups developing or deploying AI to grow. To address risks without burdening innovation, regulation should be outcome-focused, supplement existing laws where needed, and avoid burdening benign uses of technology.

To support startup competitiveness, policymakers should bolster resources for AI R&D and grow the AI talent pool, both through increased STEM education resources and skilled immigration. Balanced intellectual property and intermediary liability frameworks have been critical to startup success and should be maintained, and policymakers should avoid creating new vectors for exploitative legal threats to be brought against startups.

### KEY TAKEAWAYS

- Startups contribute overwhelmingly to economic growth and drive innovation and adoption of new technologies like AI, but are put at a competitive disadvantage when regulations are designed with large market participants in mind.
- Policymakers looking to regulate AI must account for the wide and diverse range of socially beneficial uses of the technology and must arrive at a balanced framework that enables startups to compete and succeed.

### ★ Startup Spotlight ★

**Junction AI**

(Bentonville, Ark.)

Vance Reavie, CEO and Founder

Junction AI is a platform that intelligently automates manual marketing and merchandising workflows and content generation processes for brands and retailers.

"Policymakers need a deeper understanding of this space and the differences in the participants, because there is a general lack of knowledge about AI's transformative potential, leading to an overemphasis on worst-case disaster scenarios. They need to know the costs and impacts on smaller firms like ours. But mostly I want everyone to sit back and realize that we have many laws about data, privacy, business, and regulation. Let's start by seeing what works and is already in place. At the end of the day, AI is a tool. It is a very transformative tool, but it is a tool."

# CONNECTIVITY

## WHY DOES IT MATTER TO STARTUPS?

Thanks to the Internet, an entrepreneur located anywhere in the country can launch and grow a company that reaches users across the world. Increasing reliable, affordable broadband access—through wireline and wireless connectivity, devices, and digital literacy resources— creates more opportunities for innovation and entrepreneurs. Startups also benefit from net neutrality protections—to prevent ISPs from blocking or throttling Internet traffic or charging companies for better access to users—to ensure the Internet is that level playing field. Startups also benefit from balanced telecom policy, including around unlicensed spectrum, the shared airwaves that fuel Wi-Fi networks and are available for use by anyone that abides by set standards. Increases in the availability of unlicensed spectrum have created vast opportunities for the companies that make and use technology that relies on the high-frequency airwaves—such as connected devices—as well as generally improving Wi-Fi networks across the country.

## WHAT CAN POLICYMAKERS DO?

Policymakers should continue working to improve broadband access across the country by increasing the amount of spectrum available for use by the public, pushing ISPs to build out broadband access in underserved areas, and supporting subsidies that have lowered broadband costs for U.S. households. One subsidy program in particular—the Affordable Connectivity Program, which was created during the pandemic and has helped connect millions of U.S. households to the Internet—ran out of funding in 2024. Congress should ensure this broadband subsidy program has the necessary funding to continue. Congress should also defend the Universal Service Fund, which funds broadband expansion in rural areas, schools and libraries, and more, which is being challenged at the Supreme Court this year.

### KEY TAKEAWAYS

- Startups need policymakers at all levels of government to prioritize more reliable and affordable broadband across the country to ensure the startup ecosystem is accessible to innovators of all backgrounds.
- The startup ecosystem benefits from the expansion of unlicensed spectrum, making more airwaves available for Wi-Fi networks and connected devices and providing new opportunities for innovation.

Policymakers can also advance efforts in closing the digital divide through the continued support of the $42 billion Broadband Equity, Access, and Deployment Program. The National Telecommunications and Information Administration is in the process of administering the program to close the gaps in reliable broadband and ensure equal access to affordable Internet services. Additionally, policymakers should explore alternative avenues to ensure the Internet remains a level playing field for startups.

## ★ Startup Spotlight ★

### Greater Changes

(Frederiksted, V.I.)

Tarik McMillan, Co-Founder

Greater Changes is a telehealth platform that makes mental health services accessible for all people, no matter their background.

"We've just opened an office space in the Virgin Islands where we offer in-person services. ... The office space will also serve as a telehealth hub that will provide access to people who may not have working WiFi. Unfortunately, in the territory, connectivity can be very spotty or simply won't work. If there's a power outage, internet providers that don't have backup generators here will fail to provide access. Our telehealth hubs aim to mitigate that and serve as a backup plan."

# CONTENT MODERATION

## WHY IT MATTERS TO STARTUPS?

Every startup that hosts content created by users—including websites with comment sections, apps that let users share messages, photo storage services, and review websites—deals with content moderation issues. Under the current legal framework established by Section 230 and the First Amendment, Internet companies of all sizes can host, moderate, remove, curate, recommend—including with the help of algorithms—user content without fear of ruinous legal repercussions. A small, new company that hosts user content won't be able to get investment, get off the ground, and grow its business if it has to constantly be prepared to face costly, time-consuming lawsuits over the content its users post and its content moderation decisions. And unlike the largest tech companies, startups do not have the time and resources to hire thousands of people or build expensive and ultimately imperfect tools to monitor what their users share.

## WHAT POLICYMAKERS CAN DO?

Policymakers understandably want to address concerns about problematic content that spreads online, especially when online content leads to real-world harms. But most content moderation policy proposals would make it harder for smaller and new Internet companies to launch and compete, leading to fewer places for users to gather online. Content moderation is incredibly difficult, even for the world's largest companies. There are no silver-bullet solutions to quickly finding and removing the user content a company doesn't want to host, including technological solutions, which are inherently imperfect and expensive to build and maintain.

Policymakers should be careful to avoid sweeping changes to the legal landscape around content moderation, especially those that make it riskier for startups to host, curate, and remove user content. In recent years, lawmakers have proposed varying and often conflicting legislation that would push Internet companies to moderate more and less content. Some accuse companies of removing too much and have proposed requiring that Internet companies host certain content, while others say companies aren't doing enough to remove or suppress problematic content—including illegal content as well as First Amendment-protected speech like misinformation. Most recently, lawmakers at the state and federal levels have pushed "kids' safety" legislation that would limit how companies can use algorithms to surface relevant content and moderate harmful content. Lawmakers have also sought to prohibit Internet companies from showing user content to young users that could harm their mental health, which raises practical concerns about how much information companies should have to collect about users to determine their age and free expression concerns about who gets to decide (either through private lawsuits or through government enforcement) what is considered "harmful" for kids.

### KEY TAKEAWAYS

- Content moderation is difficult for all companies that host user-generated content, especially for startups that can't afford to hire thousands of content moderators or build expensive filtering tools.
- The First Amendment protects startups' ability to moderate user content so that their corners of the Internet are useful, relevant, and welcoming to their communities of users.
- Section 230 allows Internet companies to relatively quickly and inexpensively resolve lawsuits over content created by their users.

### ★ Startup Spotlight ★

**Boddle**
(Tulsa, Okla.)
Edna Martinson, Co-founder

Boddle is an interactive game platform that helps students in kindergarten through sixth grade learn English Language Arts and Math while having fun.

"Even without a specific chat function, we have to think about content moderation–even around something as simple as usernames…. We had to take out colors …[and] certain animals…. We're cognizant of getting teacher feedback on which usernames we should allow. We rely on them to tell us when new slang pops up. Kids are incredibly creative; any two random words for their username could be part of their lingo. With Gen Alphas, we have to remove words all the time because all of a sudden a certain word means something bad now."

# COPYRIGHT & TRADEMARK

## WHY IT MATTERS TO STARTUPS?

For startups that encounter user-generated content—e-commerce platforms, social media websites, photo sharing apps, and much more—existing balanced legal frameworks, including Section 512 of the Digital Millennium Copyright Act (DMCA) and the judicial decision in Tiffany v. eBay, ensure that startups aren't automatically held liable for alleged infringement by users. Startups also benefit from other existing balanced intellectual property frameworks, including the fair use doctrine of copyright law, which, for instance, protects copying of application programming interfaces (APIs) necessary to build software that is interoperable with other systems. These frameworks strike a valuable balance that is especially important to startups in these instances, because the law provides certainty and guards against mere threats or unaffordable legal exposure putting startups out of business.

## WHAT POLICYMAKERS CAN DO?

Congress should avoid decreasing certainty or imposing unwarranted costs and risks on emerging Internet companies, especially considering that these startups and their users may unknowingly encounter copyrighted content on their platforms. Policymakers should also avoid requiring Internet companies to proactively monitor or filter all user posts to try to detect infringement. This would not catch much (if any) additional infringement but would impose a lot of new costs and risks and create substantial barriers to entry.

Generally, policymakers should promote balanced frameworks that prevent abuse from bad actors and give startups the certainty they need to innovate. For instance, ongoing litigation over whether AI companies need licenses to use copyrighted content in training data could create significant costs for startups building their own AI models or fine-tuning existing AI models.

## KEY TAKEAWAYS

- Startups need balanced intellectual property frameworks that encourage innovation and interoperability and limit their exposure to costly litigation over intellectual property.
- Changing the framework for online copyright and trademark claims would have an outsized, negative impact on startups that encounter user-generated content.
- Mandating filtering technology—which is very expensive and inherently error-prone—would create high costs and risks for startups without catching much (if any) more infringement.

## ★ Startup Spotlight ★

**Path**

(New York, N.Y.)

Chandler Malone, CEO

Path AI uses AI to create scalable, personalized learning tools to bridge accessibility gaps and ensure equity in education.

"For smaller companies like us, what happens with the copyright litigation for the largest entities is going to trickle down and impact what we are doing. We are concerned about how it will affect us, but at the end of the day, we cannot spend large amounts of money on it because we don't have the same access to capital that these larger AI companies do."

# PATENTS

## WHY IT MATTERS TO STARTUPS?

Patent quality is essential to innovative, high-tech startups. High-quality patents can be a valuable asset for many emerging companies. Low-quality patents—those that claim things that were already known or that are written in vague, overbroad terms that are difficult to understand—on the other hand, lack value and can fuel abusive litigation that harms startups. Unfortunately, many startups will only interact with the patent system in the context of abusive litigation. For example, patent assertion entities—also known as "patent trolls"—use patents to try to coerce startups to take quick settlements, knowing startups cannot afford costly patent litigation. Competitors can also use patent litigation to distract startups and slow down or stall new market entrants. Weak and overbroad patents are especially easy to misuse because they can be asserted against many startups' basic activities. Startups benefit when the U.S. Patent and Trademark Office (PTO) and the courts weed out weak and overbroad patents and when they can afford to defend their intellectual property and when court proceedings are fair and transparent.

## WHAT POLICYMAKERS CAN DO?

Patent law developments, including the 2011 America Invents Act and key Supreme Court cases, have made it easier and more affordable for startups to defend against weak or overbroad patents. Policymakers should continue to prioritize and improve patent quality over quantity while avoiding legislative or policy changes that could empower bad actors or undermine these improvements. Congress and the PTO should make the patent system easier to navigate for innovators with clear guidance. Meanwhile, the litigation system must install appropriate guardrails to prevent abusive or frivolous litigation that stifles startup innovation. Policymakers should preserve the progress made over the past decade, further endorse tools that promote quality and transparency, and reduce costs of defending against costly, frivolous patent lawsuits.

## KEY TAKEAWAYS

- Startups need patent laws that protect truly new inventions and prevent the issuance of low-quality patents that stifle innovation.
- Patent enforcement mechanisms should be fair and transparent to prevent weaponization against startups.
- Policymakers must focus on patent quality; preserve tools to clear out weak, overbroad, low-quality patents; and foster transparent and affordable mechanisms for startups to defend themselves in frivolous or abusive lawsuits.

## ★ Startup Spotlight ★

### Leantime

(Charlotte, N.C.)

Gloria Folaron, Co-Founder

Leantime builds work management solutions for neurodivergent individuals that promotes motivation, connection, and engagement for employees in the workplace.

"Navigating intellectual property issues as a startup can be tricky and costly, especially with legal fees. We've partnered with academic institutions [to be eligible for grant funding], but that brings its own challenges, as universities often want to own the intellectual property associated with their grant applications ... [and] we have an open source...software. ... As much as I would love to be partnered with and working with research universities, I have to go more of a private route due to the risk of an intellectual property challenge."

# PRIVACY

## WHY IT MATTERS TO STARTUPS?

Much of the conversation around privacy and data security focuses on large Internet companies, but startups have to navigate the same legal and regulatory framework around data without the resources of their larger counterparts. Several states have unique privacy laws in effect and many more are likely to soon pass their own. Federally, Congress has discussed a uniform nation-wide privacy framework, but policymakers have failed to get a comprehensive bill across the finish line. Many policymakers in Congress and at the state level have recently shifted their focus to tailored legislation, including around privacy protections for young users (which could require startups to estimate or verify users' ages). All of these efforts have similar overarching goals but contain relevant differences that leave startups to grapple with varying requirements and obligations that increase costs.

The evolving and varying laws at the state level add to a longstanding patchwork of state data security and data breach notification laws, which create disparate requirements about how startups have to protect against data breaches and what a startup has to do to notify users if it is the victim of a data breach.

## WHAT POLICYMAKERS CAN DO?

Policymakers should prioritize crafting a uniform federal privacy and data security framework that creates certainty for startups while providing strong protections for consumers. Twenty states have enacted unique data privacy laws, and more are gearing up to pass their own in 2025. Familiar sticking points have hindered legislative progress toward a comprehensive federal data privacy law, including whether and to what extent the federal framework would preempt state laws and how to enforce the law. Congress should create one federal standard so startups know their obligations and responsibilities under the law, regardless of where they're located, and that framework should be consistently enforced by an expert agency to ensure certainty and to minimize opportunities for bad actors to weaponize costly legal action against startups.

Policymakers should also defend the ability of technology companies to use security measures like encryption to protect their users. The push for "backdoors"—or intentional vulnerabilities in hardware or software that can be exploited by law enforcement—will do more harm than good by opening up products and services and their users to malicious actors.

### KEY TAKEAWAYS

- Startups need one uniform, consistently enforced set of rules around user privacy to provide predictability, streamline costs, and promote stability as they launch and grow, especially as several varying state privacy laws take effect.
- Startups prioritize their users and spend hundreds of thousands on their privacy and compliance programs, but each new state with a unique privacy law adds another tens of thousands in duplicate costs.

## ★ Startup Spotlight ★

**Bellybaloo**
(Boston, Mass.)
Ellen Murphy, Founder & CEO

Bellybaloo is a platform for expecting families to safely access their ultrasound images electronically and share those precious moments with those who matter most.

"At Bellybaloo, data privacy and security are non-negotiable priorities.... At the same time, there are currently varying state regulations on privacy and consumer health data and it can be challenging to navigate. A federal law would provide clarity and consistency, reducing complexity for both companies and users. It would be great if policymakers established clear guidelines and standards for data protection, while also providing support and resources for compliance efforts."

# TALENT

## WHY IT MATTERS TO STARTUPS?

Startups need to hire the best and brightest talent to compete, but the talent pool in the U.S. isn't currently equipped to fill all of the talent gaps, especially in ecosystems outside of traditional tech hubs. The U.S. technology sector needs a larger, more representative, and better-trained workforce, and the startup ecosystem on the whole would benefit from more resources for STEM education and training and better support for equity in STEM education programs. Other barriers, like the lack of affordable childcare, student loan debt, and insufficient benefits, also keep people from joining the startup ecosystem. On top of talent shortages, existing legal and policy frameworks—including limitations on independent contractors and the use of overly restrictive non-compete agreements—can make it difficult for startups to hire the talent they need as they grow.

Startups are also at a disadvantage when it comes to navigating the process of hiring high-skilled, foreign-born workers—which is lengthy and complex and imposes significant financial burdens on already tight startup budgets. The entire tech ecosystem benefits when companies can access high-skilled immigration opportunities—many of these employees may go on to found or contribute to new, innovative companies, and the presence of immigrant workers raises wages and creates jobs for native-born Americans.

## WHAT POLICYMAKERS CAN DO?

To address the current talent gaps that startups face, policymakers should take steps toward building a larger and more representative high-skilled workforce. This includes ensuring startups have access to the flexibility they need in making hiring decisions, banning non-compete agreements, and boosting funding for and access to STEM education. Policymakers should also minimize other barriers to entrepreneurship, such as improving access to and affordability of child care and exploring loan forgiveness for startup founders and employees.

Policymakers should also defend and expand existing immigration programs and implement new programs to enable foreign-born entrepreneurs to come to the U.S. Policymakers should work to implement a startup visa with a pathway to citizenship, as well as providing green cards to foreign graduates of U.S. higher education institutions, especially in STEM fields, to enable the U.S. to remain at the forefront of innovation

### KEY TAKEAWAYS

- The startup ecosystem needs flexibility and access to the best talent to succeed.
- The U.S. needs to attract and retain skilled talent from around the world to compete globally, including by making the immigration system accessible to startups and creating pathways for foreign-born startup founders.
- Policy should help make STEM education and pathways to entrepreneurship accessible to everyone.

### ★ Startup Spotlight ★

**Retail Aware**
(Omaha, Neb.)
Keith Fix, Founder & CEO

Retail Aware helps brands, retailers, and their partners measure in-store product displays and shopper behavior data in real time.

"We have incredible talent that comes from all over the world to be educated at U.S. Universities and then we just kick them out. As a startup, resources and time are limited, making it challenging to allocate hours to the complex sponsorship process. It's a dilemma many face–dedicating finite resources to solving this issue while also risking other aspects of the business."

# TAX

## WHY IT MATTERS TO STARTUPS?

Startup founders, employees, and investors all stand to benefit from tax policies that incentivize investment, enable growth, and support people pursuing entrepreneurship. For instance, immediate expensing for R&D costs helped many startups fund critical and costly research. The 20% deduction for pass-through business income helps to bring parity between pass throughs and S corps and supports small business growth. Section 1202 of the Internal Revenue Code—often called qualified small business stock, or QSBS—encourages investment in and enables talent acquisition at early-stage startups. The favorable tax treatments of carried interest and capital gains similarly incentivize investors to fund startups. And the child tax credit (CTC), which was temporarily expanded in 2021, and is set to contract in 2025, can help founders who are parents—especially mothers— pursue entrepreneurship.

On the other hand, complex, discriminatory tax frameworks discourage startup growth. For example, digital ad taxes, which have been pursued across multiple states and in other countries, target the provision of low cost services on which startups rely. These taxes could result in increased costs, stretching a startup's already slim budget.

## WHAT POLICYMAKERS CAN DO?

Key provisions of the Tax Cuts and Jobs Act are set to expire beginning at the end of 2025, while others have already begun to phase out. Policymakers should work to implement and extend provisions that help support startups including those that help startups stretch their funds further, enable entrepreneurship as a career pathway, allow startups to attract employees, and incentivize investment in startups. To help startups stretch their limited funds, policymakers should lower the overall tax burden for startups, including by preserving a low corporate rate and the 20% deduction for pass through income and by returning to immediate expensing for R&D costs while also making the R&D tax credit more useful for startups. Congress should prioritize legislation to permanently expand the child tax credit and explore other tax incentives to help women founders and women in the workplace. Policymakers should also expand existing benefits for startup investors and employees, like QSBS, and should preserve current benefits to investors, like the capital gains rate and the treatment of carried interest. Lawmakers could also explore other avenues to encourage investment like a federal angel tax credit.

### KEY TAKEAWAYS

- Providing tax benefits to investors, startup founders, and early employees can increase capital, talent, and opportunities for nascent companies.
- Policymakers can also consider new benefits to strengthen the startup ecosystem—for example by expanding QSBS or implementing a federal angel tax credit—to drive startup investment.
- Congress should return to immediate expensing for R&D costs, which helps incentivize startups' innovative efforts.

## ★ Startup Spotlight ★

**Ecobot**
(Asheville, NC)
Lee Lance, Co-founder & CEO

Ecobot is a mobile and cloud platform optimizing fieldwork by speeding along regulatory approval and lowering costs.

"When R&D can be immediately expensed, it allows small, early-stage technology companies to immediately re-invest those dollars in building more innovative solutions. When it's amortized over five years, it suddenly feels irrelevant. Not worth the time to track, because what matters to a startup is THIS year. We don't have the luxury of thinking in five-year blocks."

# TRADE

## WHY IT MATTERS TO STARTUPS?

Thanks to the significant growth of digital trade, startups and the smallest Internet companies reach users across the globe. Limits on cross-border data flows and a global patchwork of laws and regulations can create a mosaic of different rules about the same issue. Those hurdles stifle digital trade and have a disproportionate impact on small startups that lack the compliance resources of their foreign and larger industry competitors. These barriers hinder the growth of digital trade and stand in the way of U.S. startups' ability to compete abroad.

## WHAT POLICYMAKERS CAN DO?

To support startups' domestic growth and contributions to the U.S. economy, policymakers should strive for digital trade policies that improve startups' international competitiveness and keep barriers to trade low by facilitating cross-border data flows, promoting regulatory certainty, avoiding tech-sector specific levies, and providing proportionate, tailored, and certain intermediary liability frameworks. Conversely, overreliance on tariffs for other policy goals will harm startups and lead to retaliation that additionally increase costs and reduce market opportunities.

Cross-border data transfers are critical to supporting digital trade and U.S. startup success. Policymakers must enable data flows and oppose data localization requirements that can steer where and how startups can scale. Tech-sector-specific levies, like digital services taxes negatively impact startups because they increase costs for services startups use to reach and grow in new markets. Policymakers must continue negotiations to avoid the return of digital services taxes or take vigorous steps to counter where they are imposed. The absence of customs duties thanks to the WTO e-commerce moratorium has shaped the market around digital trade without tariffs and the moratorium should be made permanent. Finally, balanced intermediary liability frameworks, like those found in the U.S., should be exported to provide the legal certainty needed for startups with business models that rely on user content—whether it's comments, photos, reviews, etc.—to grow and thrive.

### KEY TAKEAWAYS

- Sound digital trade policy is a vital part of promoting domestic technology entrepreneurship—lowering trade barriers unlocks markets for U.S. startups to expand, compete, and find success.
- U.S. trade policy should seek to smooth global regulatory patchworks, facilitate cross-border data flows, avoid sector-specific levies, and lower barriers to foreign markets.
- Tariffs—and resulting retaliation from trading partners—lead to increased costs for startups and fewer markets where they can compete.

### ★ Startup Spotlight ★

**Inspirit VR**
(Palo Alto, Calif.)
Aditya Vishwanath, Co-Founder & CEO

Inspirit is a virtual reality technology platform that revolutionizes the way children learn by providing immersive experiences in the classroom.

"In addition to the U.S. and Puerto Rico, we work with institutions in Europe, Asia, and will very soon in Africa. One issue we've encountered is difficulty distributing VR hardware. The process of distributing hardware internationally can bring in import-export considerations, such as shipping duties and other taxes that come into play and can be hard for us to navigate as a startup. ... The other broad issues we encounter are around data privacy and data transfers. ... These factors are compounded because each country or region has their own different requirements."

# INNOVATION FOR ALL

## CRAFTING AN EQUITABLE STARTUP ECOSYSTEM

### WHY IT MATTERS FOR STARTUPS?

We're all better off with a more representative, more equitable startup ecosystem, where anyone with a good idea—no matter where they live or what they look like—has a chance to succeed.
Representative teams produce better innovation and are better able to suit a diverse customer base and reach wider audiences and racially and gender-diverse teams are more likely to be more profitable than less-diverse teams. Studies routinely show that a significant amount of business activity and new jobs could be created if only underrepresented founders had equitable access to start and scale their businesses.

But underrepresented founders, including women founders, founders of color, and rural founders, face significant barriers to achieving startup success. From limited access to capital—including venture capital, reduced access to bank loans, and diminished friends and family rounds—to fewer opportunities with respect to networking and mentorship, to inequities in STEM education, to a lack of broadband access, and more, underrepresented founders face barriers at every step of their startup journey. In order to bring more representation into the ecosystem, it is important to ensure diversity is prioritized throughout; institutions, individuals, and policy must do better to support all innovators.

### WHAT POLICYMAKERS CAN DO?

Engine's Innovation for All project produced dozens of policy suggestions that would help to bring about a more equitable startup ecosystem. For example, passing legislation like the Expanding Access to Capital Act would create a more diverse pool of investors by expanding the definition of accredited investor and the Expanding American Entrepreneurship Act to increase the fund size and cap on 3(c)(1) funds would similarly bring diversity to the investment world. Policymakers should also work to protect government programs designed to support underserved founders, including those at the SBA and MBDA. Lawmakers should improve access across the board to government programs and resources—from grants, to loans, to contracting opportunities—improving the diversity of allocation and streamlining processes so they are not so costly and time consuming.

#### KEY TAKEAWAYS

- Underrepresented founders face several barriers to entrepreneurship, including diminished access to all forms of capital as well as STEM education gaps.
- Policymakers should pass legislation to broaden and diversify the pool of investors and should ensure equity in the allocation of government resources.

Policymakers must also address STEM talent gaps, shoring up the leaky pipeline and providing resources for recruiting, training, and retaining diverse STEM educators. Pathways to high-skilled immigration must be smoothed, including by implementing a graduation green card program and passing legislation to implement a startup visa to welcome and retain foreign born innovators. Rural founders need improved access to affordable broadband, including through programs supported by the Universal Service Fund and the Broadband Equity, Access, and Deployment Program. And policymakers should work to expand tax benefits related to child and family care, including by permanently expanding the child tax credit.

#### ★ Startup Spotlight ★

**ZenHammer**
(Johnson City, Tenn.)
Edwin Williams, CEO

"Raising capital has been exceedingly difficult. ...Minority founders don't receive the same funding as their white counterparts. I've watched competitors with less progress raise more capital. It's hard to pinpoint exactly why this happens, but there's a noticeable decline in investment in minority-founded startups."