

# Crowdfunding—Capital for the 21st Century

One of the earliest examples of crowdfunding occurred in 1884 when funds ran short for building the Statue of Liberty's pedestal. The publisher Joseph Pulitzer used his newspaper to appeal to Americans to donate the money needed to complete the pedestal's construction. Over \$100,000 in six months was raised from more than 125,000 people.<sup>1</sup>

But it took the Internet to truly put the wind in the sails of this unique form of fundraising. One study found \$2.7 billion was raised in 2012 for more than one million initiatives—an 81% increase from the previous year. The same study forecasted that \$5.1 billion in global crowdfunding would be raised in 2013.<sup>2</sup>

## Crowdfunding Roots

Up until now, the primary use of crowdfunding has been to find donors to support the personal endeavors of artists, inventors and filmmakers. In return, donors may receive a perk, recognition or product as a form of gratitude. These tokens of appreciation are often tiered to be more attractive the larger a donor's gift.<sup>3</sup>

Crowdfunding has not been generally viewed as an investment and thus has escaped regulatory oversight or supervision.

## Crowdfunding Grows Up

Until recently, crowdfunding to solicit investments from the general public was not allowed. However, with the passage of the JOBS Act of 2012 and recent rulemaking by the Securities and Exchange Commission that permits public advertising, the table is now set for raising equity and debt capital for businesses, heralding a new era in capital markets allocation.<sup>4</sup>

Crowdfunding sites are springing up like mushrooms following a heavy rain. Not only are they multiplying in number, but they are also beginning to specialize.

Crowdfunding continues to gain momentum as more people search the Internet for new financing choices and fund-raising alternatives. It's strongly recommended that you take the time to research and investigate crowdfunding sources before making any commitment.

1. National Park Service: Statue of Liberty, October 2013

2. Crowdsourcing, October 2013

3. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.
4. The Wall Street Journal, September 9, 2013