



Limited Federal Regulations Make Crowdfunding Attractive to Both Startups and Investors

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Authors:

[Joseph J. Dehner](#)

Raising capital through crowdfunding – or issuing securities without doing a full IPO – has been legal for startups in the United States since last year. Regulation Crowdfunding, an extension of the federal exemptions to securities laws made under the Jumpstart Our Business Startups (JOBS) Act, allows companies to seek the financial backing of the general public without the red tape that usually accompanies the issuing of securities.

“Crowdfunding is a growing means for solo entrepreneurs and people without capital to launch a business from scratch,” says Frost Brown Todd (FBT) Member Joe Dehner. “Absent fraud or false advertising, companies that crowdfund are subject to little regulation in the United States.” Dehner and colleagues from FBT have contributed a chapter in a LexisNexis publication about startups and crowdfunding in the United States and abroad, released yesterday at the 61st Congress of the International Association of Lawyers in Toronto, Canada. They also regularly assist startups in the region in every stage of capital development, including initial seed capital and follow-on investments.

Wunderfund, the first equity crowdfunding platform in Cincinnati, was launched earlier this month. It is currently reviewing applications and determining what type of investment option should be offered for each startup – what type of offering has a return on investment that properly reflects the risk. Businesses in the United States are allowed to raise up to \$1.07 million through crowdfunding from accredited and non-accredited investors over a 12-month period. Offerings must be made exclusively through an SEC-registered broker dealer or an online funding portal, like Wunderfund, which must register with the SEC and become a member of the Financial Industry Regulatory Authority (FINRA). Entrepreneurs, on the other hand, receive capital in small increments and don’t have to deal with the extensive regulation that comes with going public.

The amount of a money companies can raise annually through crowdfunding was adjusted for inflation for the first time in May of this year and will continue to be adjusted at least every five years. The maximum amount individuals can invest will be adjusted for inflation in a similar way, and is otherwise determined by annual income or net worth.

“Crowdfunding has moved beyond charity projects to become a means of letting almost everyone invest in start-ups and business launches,” says Dehner. “Though obviously not without risk, it’s allowing people of all income levels to participate in the unfolding American dream.”

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