

October 29, 2021

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Kevin McCarthy
Republican Leader
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Mitch McConnell
Republican Leader
U.S. Senate
Washington, D.C. 20510

Dear Speaker Pelosi, Leader Schumer, Leader McCarthy, and Leader McConnell:

The undersigned organizations write to encourage policymakers to remove provisions in the Build Back Better Act that would curtail the effectiveness of Qualified Small Business Stock (QSBS) in incentivizing investment in innovative small businesses and startups.

Small businesses and startups are at the heart of the American economy, driving the majority of all new job creation, innovation, and opportunity for their employees.¹ As the United States seeks to build a broad-based economic recovery that expands opportunity to more people, our country's tax regime should advance that ambition.

The Qualified Small Business Stock rule has proven effective in promoting investment in startups and early-stage growth companies in regions and communities across the country. QSBS limits capital gains taxes for founders, employees, and investors in qualified small businesses. To qualify, the enterprise must, among other things, have less than \$50 million in assets, 80% of which are used in the active conduct of a qualified business. And the stock owners must hold the stock for at least five years.

Developing and investing in startups and early-stage growth companies carries substantially more risk than investing in more mature companies. QSBS, however, helps draw that long-term investment towards these enterprises across the country, lowering the cost of capital for small businesses and helping them raise the money necessary to invest in their people and products, and ultimately grow. It also provides those investors more capital to recycle into additional future investments that support the next phase of innovation and product development.

The QSBS exclusion also helps small businesses and nascent companies attract and retain talented employees. Early-stage companies generally cannot pay the same salaries or provide the same benefits as large corporations, and they certainly cannot provide the same job security. They can, however, compete for talent by supplementing salary with a piece of ownership of the enterprise. QSBS enables early-stage employees to unlock the full value of the equity they have earned in the small businesses they helped build. This incentivizes talented people to work at the innovative startups that strive to build a vibrant economic future. Sharing the economics of the enterprise with workers creates a powerful alignment of interests that drives small businesses to take on incumbents with more resources, and win.

The Ways and Means Committee recently approved a provision curtailing the QSBS exclusion as part of the Build Back Better Act, and applied the tax change to sales of stock, as opposed to new investments. This change would not only diminish the incentives that successfully bolster small businesses and their

¹ U.S. Congressional Research Service: Small Business Administration and Job Creation (R41523; updated June 23, 2021), by Roger Jay Dilger. <https://sgp.fas.org/crs/misc/R41523.pdf>

employees, but would also punish taxpayers who invested in or earned QSBS shares years ago by changing the treatment for existing shares and imposing a tax on them.

We appreciate the objectives of the Build Back Better Act and policymakers' desire to expand economic opportunity and accelerate domestic innovation. Supporting small businesses and startups is a key economic engine to realize that vision. We encourage House Members to preserve the current treatment and the related positive impacts on the startup ecosystem, the employee base, and the broader economy.

Thank you for your consideration.

Sincerely,

Advanced Medical Technology Association
Angel Capital Association
AngelList
Arizona Bioindustry Association, Inc.
BioAlliance Puerto Rico
Biocom California
BioForward Wisconsin
BioNJ
BioOhio
Biotechnology Innovation Organization
Carta
Center for American Entrepreneurship
Colorado Bioscience Association
Engine
Financial Technology Association
Georgia Bio

HealthCare Institute of New Jersey
Idaho Tech Council
Indiana Health Industry Forum
International Business Innovation Association
Life Sciences Pennsylvania
MassBIO
Medical Alley Association
Medical Device Manufacturers Association
Michigan Bioscience Industry Association
Missouri Biotechnology Association
National Venture Capital Association
NewYorkBIO
North Carolina Biosciences Organization
QSBS Expert
Small Business Investor Alliance
South Dakota Biotech

cc:

Members of the U.S House of Representatives, Committee on Ways and Means
Members of the U.S. Senate Committee on Finance