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HOUSE OF REPRESENTATIVES SEEKS TO DISCOURAGE LONG TERM INVESTMENT, INNOVATION AND JOB CREATION IN U.S. WITH PASSAGE OF H.R. 4213

U.S. Senate Has Opportunity to Correct Legislation Which Removes Critical Incentive to Invest in Start-Up Companies

May 28, 2010, Washington D.C. --The National Venture Capital Association (NVCA) today expressed profound disappointment and serious concern surrounding the House of Representatives' extremely narrow passage of H.R. 4213, a bill which doubles the taxes on venture capitalists who work with start-up companies in order to pay for temporary, large corporate tax extensions. Specifically, a provision in the bill changes the tax status of venture capital carried interest from capital gains to an ordinary income/capital gains blend, which effectively removes any meaningful tax incentive for long term investment in new companies. In fact, the proposal creates a higher tax rate for venture capital job creators than for speculators in gold and oil derivatives, sending confusing signals regarding which investment activities Congress believes should be encouraged during the country's economic recovery. The bill now moves to the Senate where lawmakers have the opportunity to correct the problematic provision.

"The House of Representatives today failed to recognize the serious economic consequences of their actions," said Mark Heesen, president of the NVCA. "It is both ironic and disconcerting that legislators can profess commitment to creating jobs – and then discourage the type of long term investment which has been a proven job creator for the last century. We are one step closer to unraveling an economic model that has made America the global center of entrepreneurship and innovation. We urge the U.S. Senate to make the necessary changes to maintain a meaningful incentive for long term investment in the start-up economy."

In the last several weeks, thousands of entrepreneurs, chief executive officers and academics have voiced strong support for maintaining capital gains tax status for venture capital carried interest. These supporters represent the most promising, innovative industry sectors in the country including clean technology, life sciences and information technology. The fact that the tax change would be permanent despite its use as a revenue raiser for one-year tax extensions suggests a misalignment of policy goals.

"To those House members who consistently express interest in bringing more venture capital investment to their districts and states, I can tell you unequivocally that this is how NOT to attract investment, said Heesen. "Today, you let down the venture capital community, the entrepreneurs that receive venture funding, and the innovators who bring new technologies to

market. If this bill is signed into law, Congress should expect a further decline of venture investment over time, a move away from seed and early stage investment, and less innovation and job creation for our country."

Many alternatives that would have increased taxes on carried interest and raised revenue, but not to the draconian levels in H.R. 4213, were presented to House members. Those alternatives remain viable options for the Senate.

"We hope the Senate will consider carried interest options that still raise considerable revenue without discouraging important investment activity," Heesen said. "They have the opportunity to support economic growth and innovation in their states – and throughout the country. Let's hope they seize it."

The **National Venture Capital Association (NVCA)** represents more than 425 venture capital firms in the United States. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. According to a 2009 Global Insight study, venture-backed companies accounted for 12.1 million jobs and $2.9 trillion in revenue in the U.S. in 2008. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.