



National Venture Capital Association

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NVCA Board Members Meet in Washington to Discuss Stifling Effects of Carried Interest Tax Bill on Start-Up Companies and Innovation

Venture Capitalists Continue to Urge Members of Congress Not to Harm Emerging Entrepreneur Community

September 18, 2007 – Washington, D.C. – The National Venture Capital Association’s (NVCA) Board of Directors gathered today in the nation’s capital to discuss deep concerns over the impact of proposed legislation to increase taxes on venture capitalists who successfully build new companies. The legislation, which has been proposed in the House of Representatives, targets carried interest compensation and would impact a number of asset classes. However, according to the NVCA, by increasing taxes on venture capitalists, Congress could be hurting the start-up community which has been responsible for creating more than 10 million jobs and driving innovation for decades.

The focus of the discussions centered on three key points:

- Venture capital is the **only** industry in the proposed carried interest legislation that creates new companies, industries and technologies.
- Venture capital funds are long term investments that help the U.S. government achieve its economic goals including bringing jobs to Americans and remaining competitive in the global economy.
- Tax fairness and support for the start-up community can co-exist.

The NVCA Board believes that a change to the carried interest tax rate would foster the wrong type of investment behavior and that the unintended consequences would be extremely harmful.

“We are pleased that many members of Congress understand that their goals of economic growth and U.S. competitiveness are perfectly aligned with those of venture capitalists. Congress wants innovation and job growth; VCs build companies and bring breakthrough technologies to the U.S. market. However, changing the tax treatment for carried interest discourages the very type of investment Congress has been trying to encourage for so long. The good news is that it is entirely possible to work in tandem to continue achieving these economic objectives while promoting tax fairness,” said Mark Heesen, president, National Venture Capital Association.

As the NVCA Board has communicated to Congress, there are distinct characteristics of venture capital that no other industry can claim: Venture capital creates industries and builds communities. The venture industry is a significant contributor to innovation in industries such as alternative energy, biotechnology, and semiconductors. Further, venture-backed companies have revitalized communities by adding jobs and generating sales revenue which support local economies. This phenomenon is happening in regions such as North Carolina's Research Triangle, Southern California, and the state of Maryland. With 18 percent of the national GDP and more than 10 million U.S. jobs attributable to venture-backed companies, venture investment is active in all 50 states with local governments and economic development agencies actively seeking ways to increase regional VC capital investment in their regions.

"The venture capital industry isn't in the 'buy it and flip it' business. We invest for the long haul, helping to create exciting new industries and companies that revitalize communities. That's how the industry has been able to foster and support 'the next big thing' for the last 30 years," said Heesen.

By definition, venture capitalists invest both money and sweat equity into each company they fund. They work alongside of management to build businesses, offering daily counsel in areas such as marketing, hiring, financial planning, and competitive strategy. In many cases, venture capitalists introduce the company to customers and suppliers. In this sense they are just as responsible for the success of the start-up company as the founder, who often receives equity as well. This type of intangible investment, from both entrepreneur and venture capitalist, is what Congress intended for capital gains tax treatment.

Also central to the discussion was the fact that increasing taxes for venture capitalists would be in direct conflict with Congress's goal of fostering innovation and remaining competitive in a global economy. Among the government's priorities is the search for alternative fuels and energy-efficient technologies, an area in which the venture capital industry has been investing significantly. As the driving force behind the development of novel technologies across many industries, including energy, life sciences, homeland security, and Internet technologies, venture capital investment will support the Innovation and Competitiveness agendas of Congress.

"If Congress is serious about promoting a Competitiveness and Innovation agenda and supporting new energy technologies, then it should be extremely thoughtful before it passes legislation which will discourage investments in the start-ups and small businesses that are key players in these arenas," said Ted Schlein, partner at Kleiner Perkins Caufield & Byers and NVCA Chairman.

NVCA will continue to encourage Congress to look at each industry swept up in the proposed legislation and make a determination on tax status based on the balance between achieving the goal of tax fairness and promoting economic growth.

The NVCA Board meeting followed a recent series of committee hearings in which venture capitalists provided testimony on the impact of the proposed carried interest tax bill.

The National Venture Capital Association (NVCA) represents approximately 480 venture capital and private equity firms. 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 2007 Global Insight study, venture-backed companies accounted for 10.4 million jobs and \$2.3 trillion in revenue in the United States in 2006. 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.

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