



National Venture Capital Association

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VENTURE CAPITAL INDUSTRY TESTIFIES BEFORE HOUSE WAYS AND MEANS COMMITTEE THAT CHANGES TO CARRIED INTEREST TAX POLICY WILL HARM U.S. ENTREPRENEURSHIP

Jonathan Silver of Core Capital Partners Cites Venture Capital as Critical Component to the Founding and Success of American Companies

Washington D.C., September 6, 2007 – Jonathan Silver, a member of the National Venture Capital Association (NVCA) and founder of Core Capital Partners in Washington, D.C., testified today before the House of Representatives Ways and Means Committee that increasing the tax rate for venture capital carried interest could damage the entrepreneurial ecosystem in the United States. Mr. Silver was invited to testify before Congress in response to HR 2834, a bill that as currently written would increase the taxes that venture capitalists pay when they fund successful private companies. Mr. Silver cautioned that such a bill goes directly to the heart of America’s jobs growth engine.

“Literally thousands of companies would not exist today were it not for the venture capital support they received early on. Federal Express, Staples, Outback Steakhouse, Google, EBay, Genentech and countless other companies were all, at one time, just ideas that needed start-up capital and guidance,” said Silver. “Nearly one out of every ten American private sector jobs is at a company that was originally venture-backed. What is particularly important is that these are NEW jobs and, in fact, often NEW industries.”

As part of his testimony, Mr. Silver submitted a list of more than 2800 companies in the states represented on the Ways and Means Committee that were founded with venture capital investment. If the state of California was included in the list, the number of companies increased to more than 3700.

The fact that venture capitalists create new companies along with the entrepreneur and stay with those companies for the long term, often 7-10 years or more, suggests that the current capital gains tax treatment on a venture fund’s carried interest is both correct and necessary, according to Silver.

Mr. Silver explained that due to their heavy involvement in the creation of companies, venture capitalists are equivalent to entrepreneurs who receive founders stock. A venture capitalist’s carried interest is a similar recognition of their sweat equity contribution.

“I believe it is important to understand that venture capitalists and entrepreneurs are really co-founders, we are not just financiers,” he said. “Without our active, ongoing involvement, many of these companies fail, or fail to launch, and potentially important innovations remain in the garage, incubator or lab.”

Mr. Silver warned that increasing the taxes for venture capitalists could have a chilling impact on the U.S. economy as fewer companies will be funded here.

“HR 2834, if passed as currently written, could fundamentally change the venture capital business. Our ability to take financial risk will shrink and companies that are now within the range of acceptable risk may no longer meet this threshold and may cease to receive venture financing,” said Silver.

Mr. Silver went on to caution that a change in the tax rate could drive more venture capital investment overseas.

“Many of countries, like Israel, India and China, are actively pursuing venture capital activity through tax- and regulatory-friendly environments in order to compete with the U.S. in the innovation- and knowledge-based economy,” said Silver. “Similarly, firms with multi-national strategies could shift more capital to their non-US activities. This global shift in venture investing is already happening.”

National Venture Capital Association president Mark Heesen suggested that the risk of this legislation far outweighs any reward.

“Venture capital is a small cottage industry, with only a few thousand professionals representing just .02 percent of GDP. Increasing the taxes on our carried interest will not raise very much revenue but the economic impact could be devastating,” said Heesen. “Is it really worth the risk?”

To view Jonathan Silver’s full testimony, please visit: www.nvca.org/pdf/JSilver_testimony_9-6-07.pdf

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.