



National Venture Capital Association

Emily Mendell, for NVCA, 610-565-3904, emendell@nvca.org

Carol Sacks, for Scale Venture Partners, 650-520-8261, carol@tenorcom.com

VENTURE CAPITAL INDUSTRY URGES SENATE TO MAINTAIN CURRENT TAX POLICY FOR CARRIED INTEREST

Kate Mitchell of Scale Venture Partners Substantiates that Venture Capital Investment Produces Long-Term Capital Gain

Washington DC, July 11, 2007 – Kate Mitchell, a National Venture Capital Association (NVCA) board member and managing director of Scale Venture Partners in Foster City, California, asserted today to the Senate Finance Committee that carried interest paid to venture capitalists has always been consistent with capital gains tax philosophy and should continue to be recognized as such. Ms. Mitchell, who was invited to testify before Congress in response to potential legislation that would change the current carried interest tax rate for certain partnerships to an ordinary income rate, explained that venture capital investment is a long-term, high-risk endeavor that, through both financial investment and sweat equity, creates a tremendous amount of sustainable value. This value is what Congress had in mind when it enacted current capital gains tax policy.

“As venture investors, our job is to identify and nurture promising companies,” said Mitchell. “Venture capital is about creating **new** companies and helped launch Google, Microsoft, Genentech, Starbucks, and eBay. While these companies are household names today, they were once just ideas put forth by entrepreneurs who had not grown a small business before.”

Ms. Mitchell explained that venture capitalists typically receive two forms of compensation. The first is a guaranteed management fee which is used to pay for firm operations and salaries. This management fee is currently taxed at the ordinary income rate. The second is the carried interest paid to venture capitalists which typically amounts to 20 percent of a fund’s total profit. Carried interest is only typically paid after all invested capital and all of the management fees have been returned to the limited partners. It is never guaranteed and is entirely contingent upon successful company exits. Given the nature of carried interest, it has been taxed at the capital gains rate.

Not all venture investments are successful, explained Mitchell, and it is often more than a decade before a venture capitalist can realize a return on investment. The long-term, high-risk nature of the business further supports a capital gains tax treatment.

“We invest in companies for 5 to 10 years, often longer and rarely less,” she said. “Many VC-backed companies fail. We dig many dry wells – the cost of which is balanced by gains earned from our best investments. This balance is critical to support our entire portfolio of hopeful start-ups.”

Ms. Mitchell also spent time describing the value of the intangible sweat equity which VCs contribute to each of their portfolio companies.

“VC’s are active, providing weekly, sometimes daily, guidance to management on everything from prototypes to key hires, from corporate governance to intellectual property rights. Venture capitalists make intangible contributions to our companies by leveraging our business experience and personal networks with customers or business partners. The reputation and goodwill that comes with this association is a key that opens doors which would otherwise remain closed to a start-up and is a catalyst to the value that is being created,” added Mitchell.

Finally, Mitchell warned that a change to the tax code could upset the delicate balance that has created a unique entrepreneurial culture in the US and allowed our country to outperform other economies.

“In the last several years, we have begun to see the US venture model exported to developing countries who have witnessed how venture capital has benefited the US economy. They are becoming aggressive in attracting these talents to their shores. The game is ours to lose,” she concluded.

NVCA president Mark Heesen believes that Congress recognizes the long term value of venture capital investment as well as the harmful implications associated with changing the tax code.

“Carried interest distributed to venture capitalists is not a tax scheme or loophole. It is a true capital gain and has been appropriately recognized as such for years,” said Heesen. “It is a critical incentive for our industry to continue to invest in and nurture companies over the long term horizon. Venture capital has created more than 10 million jobs and \$2 trillion in revenues for the US economy. We commend Congress for understanding this unique dynamic in the past and ask them to support this economic engine in the future.”

To view Kate Mitchell’s full testimony, please visit: www.nvca.org/pdf/KMitchell_testimony-7-11-07.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.