

NVCA Membership,

As we do every election, please see our election analysis below. We take a look at what happened, what to expect over the next two years, and how this election will impact the entrepreneurial ecosystem.

### **Election Recap**

Donald Trump defeated Hillary Clinton in the presidential race by a margin of 279 electoral votes to 228 electoral votes, delivering what is perhaps the biggest surprise in U.S. political history. Trump's populist economic message helped him pick up several rust belt states that have been reliably Democratic in recent elections. By winning Michigan, Wisconsin, and Pennsylvania, Trump broke through the so-called 'blue wall' and remade a national electoral map that previously had looked increasingly hostile to Republican presidential nominees. The more granular data indicates that his margin of victory came from economically anxious areas in these states that had traditionally voted Democratic. Take for example:

- Trump won Pennsylvania by ~68,000 votes. He beat Clinton in Luzerne county by 20 points, picking up 26,000 votes in a county won by Obama in 2012 and 2008.
- Trump won Michigan by ~12,500 votes. He beat Clinton in Bay county by 12.5 points, picking up 7,000 votes in a county won by Obama in 2012 and 2008.
- Trump won Wisconsin by ~27,000 votes. He beat Clinton in Juneau county by 27 points, picking up 3,000 votes in a county won by Obama in 2012 and 2008.

These counties are a representative sample of the differences between Obama's winning coalition and Clinton's unsuccessful one. Looking at the urban numbers, the major cities were fairly consistent relative to 2012 and Clinton outperformed Obama in the suburbs (nationally, Obama lost suburbs by 20 points, Clinton by only 5). Many of the counties that flipped support to Trump share similar demographics: largely white, unconnected to major metro areas, experiencing net population outflows, and strong feelings of economic anxiety.

This tracks closely with some of the other national demographic changes that stand out:

- Clinton won households making less than \$50K by 11 points, Obama won this demographic by 22 points.
- Clinton lost white non-college educated voters by 39 points, Obama lost this demographic by 25 points.
- Clinton lost small city and rural areas by 28 points, Obama lost this demographic by 2 points.

All of this to say that Trump put together a new Republican coalition that had a big night. Though Republicans retain control of the House and Senate with decreased margins,

they still exceeded expectations. In the House, Republicans lost six seats but retain a 238-193 seat majority after many estimated their losses would be 15 seats or more. Speaker Ryan will face challenges to his leadership due to an emboldened conservative wing of the party and Ryan's rocky relationship with President-Elect Trump. In the Senate, Republicans lost one seat and hold a 52-48 majority after many predicted they would lose control of the chamber. Senator McConnell is widely expected to return as Majority Leader. Through your generous support, VenturePAC supported the re-election of many members of Congress who won last night and we look forward to working with these champions of our industry.

### **Outlook for the 115th Congress**

Republicans will hold all three branches of government for the first time since 2006. Republicans will be constrained only by their lack of a 'filibuster proof' majority (i.e. 60 votes) in the Senate. However, we expect Republicans will use a parliamentary tool called [budget reconciliation](#) that will likely be used to repeal Obamacare and push tax reform. Finally, we do not yet fully understand the power of the strong populist winds that swept Trump to victory on how he will govern or the culture of the 115<sup>th</sup> Congress. Here are several major issues we anticipate could be highlights of the 115<sup>th</sup> Congress:

- **Tax Reform:** Unified control of the federal government significantly increases the odds of a major tax bill in the next year that can be passed on a party-line vote. This could include corporate rate reduction, some sort of exemption from taxation of international profits of U.S. corporations, and a lower individual tax rate for pass-through business income. For a better view of their thoughts, please see here for a [link to the House GOP tax reform blueprint](#).
- **Obamacare Repeal:** Senate Majority Leader Mitch McConnell has already stated they will take up Obamacare repeal through reconciliation. The harder part will be putting together a replacement, though they did [release this framework recently](#).
- **Trade:** Trade could be a hot button issue as the administration has a number of powerful tools at its disposal should they be aggressive with trade enforcement.
- **Supreme Court:** The Senate will attempt to confirm a Supreme Court justice early on, probably from his list that was released during the campaign.
- **Infrastructure:** Infrastructure will likely be another priority of Trump's, and his support for it could force the GOP Congress to find a way to pass more government spending for infrastructure projects.

### **Policies affecting the entrepreneurial ecosystem**

Unsurprisingly, we anticipate a dramatically different set of priorities from the Trump Administration than we saw under President Obama. Here are the priorities for the entrepreneurial ecosystem that we think are most likely to see attention:

- **Carried Interest:** Unified control of Congress dramatically increases the chances for a major tax bill, which means there could be a vehicle for changes to the taxation of carried interest capital gains in the 115th Congress. In addition, Trump has stated he wants to change the tax treatment. These developments create an environment that could be the greatest threat to carried interest since the issue rose to prominence. We will be heavily engaged on the issue in 2017 to ensure that policymakers understand the consequences of raising taxes on entrepreneurship investment.
- **Immigration:** the chances of immigration reform passing have plummeted with Trump's election. In addition, we could see stepped up enforcement and other administrative roadblocks making immigration more difficult for all applicants, and perhaps some legislative enforcement measures as well, though those are likely to be filibustered.
- **Qualified Small Business Stock Rules (Section 1202):** We are concerned about proposals to repeal QSBS in order to use the revenue to pay for lower rates, which could happen in a major tax bill.
- **Proactive Tax Proposals:** There is a chance that if a large tax bill is moving we can include tax changes that benefit the ecosystem. These include a safe harbor for R&D investment by startups from Section 382 Net Operating Loss rules, an expansion of the R&D credit so startups can access its benefits, and improvements to QSBS if we can change the perception of the policy.
- **Net Neutrality:** It is highly likely that the FCC's net neutrality rules will be overturned by Trump's appointees to the commission or by Congressional action.
- **Regulatory:** We are hopeful that the next two years will bring good news from a regulatory perspective. We are not likely to see significant new regulations, and we may have opportunities to decrease regulatory burdens on startups and VCs where appropriate. We also see an opportunity to work on policies that could promote U.S. IPOs.
- **Drug Pricing:** we could see the impact of populism on lawmaking as the drug pricing debate will come up during consideration of Obamacare repeal.

From a broader perspective, given the impact of economic anxiety on the election results, we see a significant opportunity to raise the profile of the entrepreneurial ecosystem as a solution to the challenges to many American families are facing. We know that young companies create an average of 3 million new jobs per year and are responsible for almost all net new job creation in the country. It will be through this lens that we will advocate for the policies important to you and your portfolio companies. It will be critical that our members work with us over the next two years to protect the interests of the ecosystem. If you have any questions, please feel free to reach out any time.

Justin, Jeff and Charlotte (contact info below)

[jfield@nvca.org](mailto:jfield@nvca.org)  
202-864-5929

[jfarrah@nvca.org](mailto:jfarrah@nvca.org)  
202-864-5927

[csavercool@nvca.org](mailto:csavercool@nvca.org)  
202-864-5928