

**Date Sent:** November 2, 2017

**Subject Line:** Tax Reform Update: Quick Read of House Tax Bill



NVCA Members,

The House Ways and Means Committee has just released their detailed tax reform proposal.

- [Bill Text](#)
- [Section Summary](#)

This is a significant step in the tax reform process, as it's the first time lawmakers are revealing where they stand on a number of major issues, including how to pay for the tax cuts in the proposal. While we will be back in touch with a deeper analysis of the broader proposal, we want to give you a quick state of play on several issues directly impacting the industry and your portfolio companies.

- **Carried Interest Capital Gains:** The House bill released today is silent on the issue. However, we do expect there to be a provision impacting carried interest in the Chairman's Mark, which could be released tomorrow. We hope that this provision will reflect the numerous conversations we have had with the committee and committee members about the need to recognize the importance of long-term patient investment when considering changes

to the taxation of carried interest capital gains. We do also know that there is a chance that the proposal will revert to the 2014 tax reform proposal language, which proposed to tax carried interest 70% as ordinary income and 30% as capital gains income. **We will update you as soon as we can confirm more on this.**

- **Qualified Small Business Stock Rules (QSBS): Proposes to maintain the QSBS rules**, which allow a capital gains tax exemption of up to \$10 million or 10X basis for investments in qualified small businesses. We view this as major progress from 2014, when QSBS was repealed.
- **Pass-Through Tax Rate:** Has a top rate of 25 percent on pass-through business income, including that earned by partnerships. Uncertain how the different restrictions in the bill will limit its applicability to VC partnerships, but will know more as we go along.
- **R&D Credit Payroll Tax Offset:** Preserves the ability for startups less than 5 years old/under \$5M in revenues to offset up to \$250K in payroll taxes with accumulated R&D credits, a priority issue for NVCA.
- **Stock Option Tax Deferral:** Includes an NVCA-supported proposal to allow employees at private startups to defer paying taxes on exercised stock options until either the firm goes public or gets acquired, or seven more years pass.

We believe, depending on what comes out on carried interest tomorrow, this bill is a significant improvement from the last major tax reform proposal released in 2014, which proposed taxing 70 percent of all carried interest earned as ordinary income, and repealed the Qualified Small Business Stock rules.

While these are positive developments, please remember this is just the beginning of the process. There is a long way to go, and particularly due to the politically charged conversations surrounding carried interest, we know we must continue working this issue hard through the end of the process.

Will be back in touch soon once we have time to do a full analysis of the plan. In the meantime, please contact Justin Field, Vice President of Government Affairs, with any questions: [jfield@nvca.org](mailto:jfield@nvca.org).

For your reference, below please find a few fact sheets with additional information about the proposal prepared by the House Ways and Means Committee:

- [“Policy Highlights”](#)
- [“Taxpayer Examples”](#)
- [“Charge and Response”](#)
- [“What Our Historic Tax Reform Means for You and Your Family”](#)

