



May 22, 2018

The Honorable Lorena Gonzalez-Fletcher
Chair, Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, CA 95814

Re: AB 2731 (Gipson) – Oppose: Income taxes: investment management services interest

Dear Chair Gonzalez,

The undersigned, representing a wide breadth of organizations that are proudly contributing significantly to the California economy with jobs, investment, and R&D write to you to respectfully oppose AB 2731 (Gipson).

AB 2731 seeks to impose a 17 percent surtax on carried interest earned by venture capitalists and other partnerships. This surtax is discriminatory, will end up costing the state more revenue than it purports to raise, and will harm the exact companies and partnerships which make California the 5th largest economy in the world.

What is Carried Interest?

Put simply, carried interest earned by venture capitalists is the profit share that venture capitalists receive if their overall fund is successful.

AB 2731 Would Damage the Crown Jewel of the California Economy

Venture capital is a vital part of the California economy. Having helped start and build companies that are the backbone of the California economy and its revenue base, including Alphabet, Intel, Apple and Genentech, the results of venture capital activity is worth billions annually to the state.

AB 2731 would be one of the most significant tax increases ever passed by the California Legislature on one single industry and could lead to ***total effective tax rates of almost 70 percent for carried interest earned by California VCs.***

Damage to the economy would include:

- **VC Exodus:** After the federal tax changes (including the loss of deductibility of state and local taxes), VCs are vulnerable to state level taxation. It's likely that the bill would lose a significant amount of the promised calculated revenue because VCs would relocate before realizing their carried interest capital gains.

- **Depressed startup activity:** There's no question that such a huge tax increase would depress venture capital activity, thus leading to fewer startups developing into successful companies in California. This includes Biotech development and R&D, clean energy technology, financial services, and so much more.
- **Declining participation in venture capital by underrepresented groups:** The smaller the fund, the more important carried interest is as an incentive to participate in venture capital. In fact, general partners at small VC firms can go years without a salary while they struggle to find success, meaning for them carried interest is the sole economic incentive to participate in venture capital. Significantly increasing taxes on carried interest will make it harder for people of diverse backgrounds, who are more likely to start smaller firms, to break into the industry.

It's important to remember that if a venture capital fund is successful, it's only because new businesses were built and hundreds to thousands of new jobs were created. AB 2731 would be a self-inflicted wound to the California economy that would cost the state jobs and economic competitiveness while failing in its stated goal to bring in additional revenue.

AB 2731 would be one of the largest tax increases ever imposed by this legislature on a specific industry and would have a devastating impact on the California venture capital community and those industries that depend on them.

For the reasons briefly described above we respectfully oppose AB 2731. If you have any questions or concerns regarding our position, you may contact Andrea Deveau, Vice President at TechNet (805) 234-5481 or adeveau@technet.org, or Justin Field with the National Venture Capital Association, jfield@nvca.org.

Sincerely,

National Venture Capital Association
TechNet

cc: Speaker Anthony Rendon
The Honorable Mike Gipson, CA State Assemblymember
Members, Assembly Appropriations Committee
Luke Reidenbach, Principal Consultant, Assembly Appropriations Committee