United States Senate
Washington DC 20510

Dear Senator:

Senate Finance Chairman Max Baucus (D-MT) and Ranking Member Orrin Hatch (R-UT) have asked for input from their colleagues as they contemplate reforming the U.S. Tax Code. We strongly believe that tax policy is indelibly linked to our nation's economic growth and that constructing the right framework for entrepreneurial activity within the tax code is essential to continued U.S. economic competitiveness. As the foundations for tax reform are being framed, we offer the thoughts below on behalf of the venture capital community that has been at the nexus of job creation and long-term investing in company growth.

As the debate around the tax code has unfolded, we have seen an increasing reliance on the stricture of simplicity for the tax code of the future. Certainly, many areas of the code are ripe for this effort. Streamlining the code's many energy tax credits, for example, toward a singular long-term policy that provides consistent and technology-neutral incentives will be a welcome change from the current patchwork, industry-specific credits that have elevated some energy technologies while keeping other innovations at bay. NVCA has offered specifics on this topic to both Democratic and Republican Members of the Senate Finance and Senate Energy Committees.

Yet, while we certainly applaud simplicity, we do not believe simplicity in and of itself will meet the demands of the nation for job growth and economic competitiveness. Tax policies of an innovative nation must be consistent, predictable and encourage capital formation and investment. To ensure that result, we believe that the code must maintain support for long-term, patient investing in company growth. For the last four decades, the venture capital community has served as a founder and builder of companies, a creator of jobs, and a catalyst for innovation in the United States. This contribution has been achieved through high-risk, long-term investment of considerable time and dollars into small, emerging growth companies across the country and across industry sectors. Venture capital has differentiated the U.S. economy from all others across the globe. Despite the tremendous value generated by the venture capital industry, the ecosystem is a small and fragile one that requires consistency to thrive. To date, Congress has demonstrated a strong understanding of the necessary environmental factors required to foster a stable venture capital environment. The venture capital industry is asking you to continue to recognize the importance of a capital gains rate in incentivizing patient capital that backs entrepreneurial risk.

We believe that any discussion of the relevance of capital gains policy must take into account the role of capital gains in creating the system of support for entrepreneurial activity that has enabled the economy to capture the positive externalities that have flowed from the startup ecosystem. Academics such as William Gentry, Paul Gompers, Josh Lerner as well as Christian Keuschnigg and Soren Bo Nielsen have documented the importance of capital gains policy in encouraging entrepreneurs to start new ventures and in encouraging venture capitalists to fund them.

One mechanism through which Congress could balance reform of capital gains with the continued support for long-term investment would be a change in the qualification for long-term capital gains. We do not believe that in today's market place, one year constitutes long term. Extending the holding period for capital gains past the present one-year requirement would maintain the incentive for entrepreneurial investment, thereby contributing to national debt reduction while still supporting pro-growth policies.

Since the 1970s, the U.S. venture capital and entrepreneurial ecosystem has been the envy of the world. Uniquely, our startup economy not only leveraged the attributes listed above, but also consistently fostered an environment that allowed entrepreneurs to take a risk, start a company, access capital and to succeed *or* fail. Just as we have seen the emergence of a global economy in almost every sector of society, in the last several years we have begun to see the U.S. venture capital model exported to other developing countries such as India, Israel and China.

Perhaps more significant, those countries, which now have expanding internal markets and participate in the global economy in a more comprehensive manner, are also fostering indigenous venture capital markets. Foreign born nationals who have been educated in the U.S., and perhaps have started companies here, now have a viable option to return home and become part of the local venture base, whether in Israel, India or China. This was not the case just five years ago. Many foreign countries have witnessed how venture capital has benefited the U.S. economy and are becoming very aggressive in attracting talent and capital to their shores. We have seen this with the burgeoning semiconductor business in China, with the biotech industry in Singapore, and in the large and growing software market in India, all of which are being led by foreign nationals who began their careers in the U.S. In the energy sector, many companies that were started in the U.S. are now moving overseas to scale up the deployment and manufacture of new clean energy technologies. Even in Europe where considerable pressure is being placed on the private equity industry, government officials are simultaneously affirming support for venture investment in small start-ups.

America from its earliest days has rewarded risk takers. Through our capital markets, our tax laws and our regulatory structures, the government has made it possible for those with a promising idea to take the leap of faith and set out on a risky but potentially rewarding path. We believe that Congress has understood well the venture capital value contribution to this process and has enacted and maintained tax policies that promote this activity. Congress always faces difficult choices as it reviews tax policy at large, and the discussion around capital gains tax policy clearly generates strong views from Members on both sides of the aisle. As you continue to examine the intersection of capital gains policy and tax reform, we urge you to continue to embrace a consistent, long-term perspective as it relates to capital formation policies necessary to maintain the uniquely American entrepreneurial ecosystem.

Thank you for the opportunity to share our views on this important topic.

Regards,

Mark G. Heesen
President