



May 12, 2020

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, DC 20501

The Honorable Charles Grassley
Chairman
Senate Finance Committee
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
United States Senate
Washington, DC 20510

Startups Combating COVID

Dear Senators McConnell, Schumer, Grassley, and Wyden:

American startups are the most innovative companies in the world, and many are currently researching and producing products and technologies needed to fight COVID-19.¹ Large companies often dominate the headlines, but nimble high-growth companies are frequently the ones re-defining the boundaries of science and technology. Some of these companies were previously in the healthcare space and have shifted their resources to specifically address COVID-19, while many companies in other sectors have pivoted from core business activities to do their part. Startups combating COVID-19 can be found in communities across the country, demonstrating the rise of emerging startup ecosystems in new cities and states.

Venture-capital backed startups combating COVID-19 include:

- Moderna (Cambridge, Massachusetts) is pioneering a new class of medicines made of messenger RNA (“mRNA”) and has been approved for a Phase 2 clinical trial for an mRNA-based COVID-19 vaccine.

- NeoMoDx (Ann Arbor, Michigan) is a diagnostic company that reallocated resources to rapidly develop and launch a fully automated test for COVID-19 that provides results in just over an hour. The company shipped 200,000 tests in April and is scaling up to over 250,000 per month.

¹ This letter includes examples of VC-backed startups and their efforts against COVID-19. NVCA has included a more fulsome list at <https://nvca.org/nvca-response-to-covid-19/#startups-combating-covid> that is organized by congressional district.

•Xenex (San Antonio, Texas) developed the LightStrike Robot, the first UV disinfection technology to deactivate COVID-19.

•Vir Biotechnology and Alnylam Pharmaceuticals (both of San Francisco, California) have teamed up to develop a cell therapy candidate to treat COVID-19.

•Rheonix (Ithaca, New York) is a developer of a novel molecular testing device for diagnosing COVID-19 within hours.

•Cidara Therapeutics (San Diego, California) is focused on novel anti-infectives for the treatment and prevention of diseases and its Cloudbreak antiviral platform has enabled the company to target COVID-19.

Startups will lead U.S. economic recovery and need support

In addition to solving health crises, high-growth companies will be integral to our economic recovery. Research demonstrates that new businesses account for nearly all net new jobs.² As Americans return to work and policymakers look for ways to revive the economy and strengthen it for the long-term, high-growth startups will be a driving force in creating economic growth and ensuring the United States remains the global home for innovation.

It is imperative that policymakers prioritize policy changes in the next economic relief package that are designed to support the American startup ecosystem. In particular, Congress should:³

ALLOW STARTUPS TO ACCESS VALUE OF NET OPERATING LOSSES: Startups and growth companies often incur losses in the early years of their operations as they use investment capital to fund research, expand workforces, or otherwise undertake activities intended to create long-term value. To support innovative startups, these companies should be allowed to monetize up to \$100 million worth of eligible net operating losses (NOLs).⁴

DOUBLE VALUE OF NOLs FOR WORK RELATED TO COVID-19: Enhancing the value of monetized NOLs for expenses related to the production and distribution of products needed to combat COVID-19 will create a surge of capital deployed by some of the country's most innovative companies into the research and production activities critical to America's fight against COVID-19.⁵

² Kauffman Foundation, *The Importance of Young Firms for Economic Growth*, September 2015, available at https://www.kauffman.org/wp-content/uploads/2019/12/entrepreneurship_policy_digest_september2014.pdf.

³ Additional information about these proposals can be found here: <https://nvca.org/wp-content/uploads/2020/04/NVCA-BIO-Startup-tax-assets-proposal-April-23.pdf>.

⁴ Eligible NOLs must have been incurred in 2020, 2021, or in the previous five full taxable years. Any monetized NOLs would no longer be available to offset earnings in the future. Section 382 would be disregarded for purposes of this proposal. The value of NOLs utilized under this proposal would be based upon the current federal corporate tax rate of 21 percent.

⁵ Eligible NOLs must be incurred after February 15, 2020. Any monetized NOLs would no longer be available to offset earnings in the future. Section 382 would be disregarded for purposes of this proposal. The value of NOLs utilized under this proposal would be double the current federal corporate tax rate.

MAKE R&D CREDITS TEMPORARILY REFUNDABLE: Because of their research-intensive nature, startups generate significant R&D tax credits that are carried forward as the costs of research and growth activities often outstrip earnings for many years. These credits currently can offset some payroll taxes for early stage companies, but largely stay on the books and are carried forward for years. Making these R&D credits refundable will support research that could otherwise go dormant during the economic downturn.

DOUBLE R&D CREDIT VALUE FOR STARTUPS RESEARCHING TECH TO COMBAT COVID-19: According to a recent World Health Organization list, twelve percent of global COVID-19 vaccine research projects are being undertaken by venture-backed startups.⁶ By doubling the value of the R&D credit with respect to research into products needed to fight the COVID-19 crisis or mitigate its impact (such as research towards vaccines, tests for the disease, or personal protective equipment), this proposal would efficiently support capital deployment, thereby accelerating many research projects currently undertaken by some of the country's most innovative companies. This capital ultimately will create better technology to fight the pandemic. In addition, the credit should be enhanced for research into combating further pandemic infectious disease threats.

These proposals are similar to the NOL and AMT credit monetization provisions for incumbent companies that were included in the CARES Act. At a time when we see countries around the world deploy billions of dollars to support their startup ecosystems, including through research grants, net operating loss reform, loans and other mechanisms, we offer these proposals as a targeted way for American policymakers to both support the fight against COVID-19 and protect America's long-term global competitiveness.

On behalf of the startup ecosystem, thank you for your attention to this critical part of our economy and to our nation's health.

Sincerely,

A handwritten signature in black ink that reads "Bobby Franklin". The signature is written in a cursive, slightly slanted style.

Bobby Franklin
President and CEO

CC: Members of Congress

⁶ World Health Organization, Draft Landscape of COVID-19 Candidate Vaccines – 23 April 2020, *available at* https://www.who.int/blueprint/priority-diseases/key-action/draft-landscape-COVID-19-candidate-vaccines-23-April-2020.pdf?mod=article_inline.