



April 26, 2023

The Honorable Maggie Hassan  
U.S. Senate  
324 Hart Senate Office Building  
Washington, D.C. 20510

The Honorable Todd Young  
U.S. Senate  
185 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Senators Hassan and Young,

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to voice our strong support for the *American Innovation and Jobs Act*. This legislation would support startups investing in researching new technologies that create long-term value for the U.S. economy.

The *American Innovation and Jobs Act* would expand the ability of startups to access the value of research and development (R&D) tax credits they generate and once again allow companies to expense the costs of research and development. This legislation is particularly important at a time where the pace of innovation is critical to success in a range of critical national priorities, including economic opportunity, national security, and the energy transition.

### **Background on Venture Capital**

Venture capital (VC) is uniquely suited to financing innovative products and technologies due to its longer time horizons and equity-based financing model. Venture capitalists create partnerships with institutional investors to combine the capital held by pension funds, endowments, foundations and others with their talent and expertise to make high-risk, long-term equity investments into innovative young companies. Venture capital has the longest asset holding periods of any investment class. The standard VC partnership agreement lasts for ten years with extensions that in practice mean the partnerships generally run even longer.

The nature of frontier technology commercialization typically requires substantial amounts of capital to finance high-risk research projects for long time horizons with little to no revenues or collateral. These factors make equity investment far more prominent in financing

breakthrough innovation than debt instruments. VC-backed companies are also able to attract some of the best technological talent in the world through widespread use of equity compensation. By sharing ownership of the company with their workforces, these companies draw motivated workers willing to bet on themselves.

VC-backed companies are generally nascent entities that use equity investment provided by VC funds to conduct research, expand workforces, build out new facilities, and focus on growth activities that create long-term value. A recent survey of VC-backed companies by NVCA showed that “four out of five respondents spend at least 70 percent of their budgets on two activities, wages and compensation and research and development (R&D).”<sup>1</sup> The survey also found that nearly one in five VC-backed companies spend at least 85 percent of their budget on R&D activities.

In addition to patient working capital, VCs work alongside their portfolio companies to mentor the executive teams, offer strategic advice (often from seats on the company’s board), and serve as critical resources bridging the divide between the lab and market. A VC’s participation often serves as a conduit to further growth capital opportunities and resources needed to scale, a key factor for expanding innovation opportunity to new regions and building local ecosystems.

In some instances, VCs will even work directly with universities to license technologies, re-run experiments, pull complementary technologies together, recruit the founding team, and essentially build the company from scratch. An illustration of this model is the founding of vaccine maker Moderna. Journalist Dan Primack of Axios observed of the company’s founding: “Moderna wasn’t just a VC-backed startup. It was a VC-created startup, inside an incubator program run by Cambridge, Mass.-based Flagship Pioneering. It didn’t even have a name for the initial nine months of its life, just a project number.”<sup>2</sup> This is exemplary of the power of venture capital and the central importance of the equity investment model to frontier technology.

America is the global leader in innovation—a critical component in a globally competitive economy—in large part because of venture capital. And as we can see from regional and international disparities in venture capital activity, if venture capital does not exist to support an entrepreneurial ecosystem, no other investment class, nor government spending, can fill this gap.

However, American leadership should not be taken for granted in the global race for innovation. In fact, the share of global venture capital investment into U.S. companies has dropped from 90 percent from as recently as the 1990s to just 51 percent in 2021.<sup>3</sup> In an increasingly competitive world, the United States must prioritize greater scientific discovery and patient capital investment in order to maintain our leadership edge.

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<sup>1</sup> *Venture Capital at Work*, NVCA, available at [Venture Capital Investment at Work - National Venture Capital Association - NVCA](#)

<sup>2</sup> *The Company Leading the Race to a Coronavirus Vaccine*, available at <https://www.axios.com/moderna-coronavirus-vaccine-trial-78e06a4e-e7ed-42e9-a769-7055030fe3a1.html>

<sup>3</sup> Source: NVCA 2021 Yearbook, Data Provided by Pitchbook.

## **Economic Impact of Venture Capital Activity**

Venture-backed companies constitute approximately 50 percent of companies that go public each year, including 40 percent of climate technology companies,<sup>4</sup> and are responsible for developing around half of new FDA-approved drugs.<sup>5</sup> Public companies originally built with venture capital financing account for an astounding 92 percent of R&D spending undertaken by all public companies founded within the last fifty years.<sup>6</sup> Recent research suggests that the U.S. VC industry is causally responsible for the rise of one-fifth of the current largest 300 US public companies and that three-quarters of the largest US VC-backed companies would not have existed or achieved their current scale without an active VC industry.<sup>7</sup>

In addition to innovation and economic growth, venture capital has a massive impact on the U.S. workforce. New research found that employment at VC-backed companies between 1990 and 2020 grew 960 percent, whereas total private sector employment during that same period grew only 40 percent. These jobs are distributed broadly across the entire U.S. with 62.5 percent of jobs at VC-backed companies located outside the states of California, Massachusetts, and New York.<sup>8</sup> This illustrates a fundamental trend in the modern economy: the path to greater economic opportunity for American workers runs through technological progress and long-term investment.

## **Restoring Full R&D Expensing**

The *American Innovation and Jobs Act* would fix an increasingly critical issue for growth companies. Longstanding tax policy has supported investment in innovation by allowing businesses to fully deduct their R&D expenses in the same year as they are incurred. However, a provision from the *Tax Cuts and Jobs Act of 2017* now requires R&D costs to be amortized over five years. This change is creating tax liabilities for growth companies that are spending far more on research than they're realizing in revenue.

If left to stand, requiring amortization of R&D expenses would particularly harm young companies investing a large share of their budget on researching technologies, including those critical to national security and the energy transition. Counterproductively, this would leave our nation's most innovative companies with fewer resources to dedicate to their missions at a time when policymakers are seeking to encourage greater investment in critical technologies through bipartisan initiatives within the CHIPS & Science Act and Bipartisan Infrastructure Law.

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<sup>4</sup> *Initial Public Offerings: Updated Statistics*; Professor Jay Ritter, University of Florida, available at <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>.

<sup>5</sup> *Trends in Healthcare Investments and Exits 2019*, Silicon Valley Bank, available at <https://www.svb.com/globalassets/library/managedassets/pdfs/healthcare-report-2019-midyear.pdf>

<sup>6</sup> *The Economic Impact of Venture Capital: Evidence from Public Companies (July 2021)*, Professors Will Gornall and Ilya Strebulaev, available at [The Economic Impact of Venture Capital: Evidence from Public Companies by Will Gornall, Ilya A. Strebulaev :: SSRN](#)

<sup>7</sup> Id.

<sup>8</sup> *An Analysis of Employment Dynamics at Venture-Backed Companies Between 1990 and 2020*, NVCA, Venture Forward, and the University of North Carolina Kenan Institute of Private Enterprise (February 2022), available at [https://nvca.org/wp-content/uploads/2022/02/Employment-Dynamics-at-Venture-Backed-Companies\\_FINAL.pdf](https://nvca.org/wp-content/uploads/2022/02/Employment-Dynamics-at-Venture-Backed-Companies_FINAL.pdf)

The *American Innovation and Jobs Act* would address this challenge by once again allowing for R&D costs to offset revenues in the year that they are generated. This bill will support a range of bipartisan priorities by ensuring that resources aren't diverted from research programs to pay phantom tax bills.

### **Expanding the R&D Credit for Startups**

Currently, companies with less than five years in an active trade or business and less than \$5 million in gross receipts can offset up to \$250,000 in payroll taxes and an additional \$250,000 in Medicare payroll taxes with R&D credits. The *American Innovation and Jobs Act* would increase the amount of payroll taxes that can be offset by eligible companies up to \$750,000 over a period of years. The legislation would also increase the eligibility thresholds to eight years and \$15 million in gross receipts. These provisions will help innovative startups working on some of the most important technologies access the value of their R&D credits, addressing a traditional limitation of the R&D credit's effectiveness. Importantly, this liquidity will support startups undertaking R&D in a range of critical technology fields, including all ten of the key technology areas highlighted by the CHIPS and Science Act.<sup>9</sup>

### **Conclusion**

As the need for domestic investment in critical technologies to address national challenges continues to increase, policies that support startup investment into R&D are more imperative than ever. We are excited that the *American Innovation and Jobs Act's* proposed fix to the R&D amortization challenge and the expansion of the ability for startups to monetize their R&D tax credits will accelerate the pace of innovation in the United States and support our leadership position in a range of critical technology areas.

NVCA appreciates your leadership and stands ready to partner with you to advance this essential bipartisan legislation. Please let us know if there is anything else we can do to be helpful to your efforts.

Sincerely,



Bobby Franklin  
President and CEO

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<sup>9</sup> CHIPS and Science Act Pub. L: 117-167, available at <https://www.congress.gov/117/plaws/publ167/PLAW-117publ167.pdf>