



December 13, 2022

The Honorable Lily Batchelder
Assistant Secretary (Tax Policy)
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

William Paul
Principal Deputy Chief Counsel
Internal Revenue Service Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Submitted Electronically via the Federal eRulemaking Portal

Re: Response to Request for Comments Notice 2022-51 on Prevailing Wage, Apprenticeship, Domestic Content, and Energy Communities Requirements

Dear Ms. Batchelder and Mr. Paul,

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to provide the perspective of the American startup ecosystem regarding your request for comments on prevailing wage, apprenticeship, domestic content, and energy community requirements (Notice 2022-51). The National Venture Capital Association ([NVCA](#)) appreciates the opportunity to respond to this Request for Information from the Department of the Treasury and the Internal Revenue Service (IRS).

NVCA convenes venture investors and entrepreneurs to shape public policy priorities, develop new industry initiatives, provide premier research, and organize professional development opportunities. America's startup ecosystem is advancing breakthrough innovations across climate technology verticals. In 2021, 827 U.S.-based climate tech startups raised \$27.27 billion in VC funding, more than double 2020's record of \$12.7 billion invested.¹ Given the importance of speed in moving the economy to carbon-neutral, this wave of young companies will play a critical role in the country's effort to address the climate crisis. Further, these

¹ PitchBook Data, PitchBook Platform

companies hold the potential to lead the world in advanced energy innovation. Their success can significantly accelerate the global energy transition.²

Background on Venture Capital

Venture capital (VC) is uniquely suited to financing advanced energy technology commercialization 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).”³ 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

² [President Biden Should Highlight American Leadership in Climate Technology Innovation at COP26 - National Venture Capital Association - NVCA](#)

³ *Venture Capital at Work*, NVCA, available at [Venture Capital Investment at Work - National Venture Capital Association - NVCA](#)

initial nine months of its life, just a project number.”⁴ This is exemplary of the power of venture capital and the central importance of the equity investment model to frontier technology.

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,⁵ and are responsible for developing around half of new FDA-approved drugs.⁶ 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.⁷ 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.”⁸

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.⁹

Prevailing Wage and Apprenticeship Requirements

The *Inflation Reduction Act* (IRA) contains a provision allowing taxpayers to cure wage and apprenticeship deficiencies through additional payments to the affected workers and to the government. Contractors including engineering, procurement and construction (EPC) and operations and maintenance (O&M) contractors play a vital role in building out new facilities.

It will be challenging for startups to cure potential wage and apprenticeship deficiencies without having direct access to the employee information (including name, contact information and wages) of contractors and subcontractors. NVCA encourages Treasury and IRS to issue guidance addressing this lack of access to key information for contracted employees in curing wage and apprenticeship deficiencies.

⁴ *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>

⁵ *Initial Public Offerings: Updated Statistics*; Professor Jay Ritter, University of Florida, available at <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>.

⁶ *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>

⁷ *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](https://www.ssrn.com/sol3/papers.cfm?abstract_id=3888888)

⁸ Id.

⁹ *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

Domestic Content Requirements

NVCA appreciates policymakers' objectives in crafting domestic content rules to encourage greater production and sourcing of U.S.-made components. New incentives for manufacturing climate technology components domestically will be critical for building out a supply base in the U.S.

However, we are concerned that until U.S. manufacturing capacity for critical components can keep up with the rapid pace of climate technology deployment, it will be challenging for startups to satisfy domestic content rules given unavailable or cost prohibitive supplies. NVCA encourages Treasury and IRS to issue guidance clarifying in what circumstances a taxpayer can waive into a domestic content bonus credit, and specifically when materials are considered not to be of "satisfactory quality." Guidance should also clarify that waivers can be claimed without the need for a private letter ruling.

Furthermore, there is uncertainty regarding factors included in calculating the specified percentage of the total cost of the components that are mined, produced, or manufactured in the U.S. for purposes of the domestic content requirements and whether exceptions to these rules would apply. We encourage Treasury and IRS to issue clarifying guidance on calculating the specified percentage, verification and documentation requirements, and the ability to cure deficiencies should the specified percentage fall below set thresholds.

Conclusion

NVCA thanks Treasury and IRS for taking into account our views. We hope that the opinions expressed in this filing serve to offer a unique perspective as the agencies work to implement Prevailing Wage, Apprenticeship, Domestic Content, and Energy Communities Requirements under the *Inflation Reduction Act*. Please let us know if there's anything else we can do to be helpful to your efforts.