

**APRIL 20, 2023**

Representative David Kustoff  
United States House of Representatives  
Washington, DC 20515

Dear Representative Kustoff:

Representing the broad diversity of the angel investor, early stage start-up community and entrepreneurship ecosystem, we write to express our strong support for your bill amending Section 1202 of the Internal Revenue Code of 1986 and modifying the exclusion for gains from qualified small business stock (QSBS). We appreciate your leadership in spurring entrepreneurship in the United States and improving access to capital.

Start-ups and small businesses are a vital part of the American economy but they depend significantly on investment capital to innovate, build a new workforce, and achieve meaningful growth. QSBS allows investors and entrepreneurs in these risky early stage companies to enjoy limited capital gains and get the most out of the equity they have earned by investing their own personal dollars, time and talent in early stage start-ups.

With the possibility of failure ever present, this type of investment is necessarily high-risk and long-term. Therefore, the United States must provide a tax structure that incentivizes this vital economic engine. Currently, Section 1202 applies to the sale or exchange of qualified small business stock held for more than five years. By lowering the holding period to three years with a phased increase in exclusion for gains, your bill fortifies an essential incentive for early-stage investment in groundbreaking innovation.

Investors/entrepreneurs also support start-ups by purchasing/issuing convertible debt. However, investors who acquire or issue stock solely through the conversion of qualified convertible debt instruments cannot include their holding period for that convertible debt in the 1202(a) holding period. By reforming Sec. 1202(f) to allow the inclusion of convertible debt in the 1202(a) holding period, your bill will allow investors/entrepreneurs who buy/issue debt of the start-up that is convertible into equity on a tax-free basis to include their holding period for that debt in the 1202(a) holding period. This will vastly expand opportunities for early-stage businesses to secure vital funding.

Furthermore, the Internal Revenue Code currently applies the gain exclusion only to qualified small business stock in C corporations. Many start-ups are initially created as S corporations or LLCs but convert to C corporations later, when they want to attract venture or other institutional capital. By expanding the gain exclusion to include interests in other kinds of corporations, your bill further advances investments in early-stage businesses. We applaud this greater flexibility.

Thank you for your efforts on behalf of start-up and early-stage investors and innovators. We commend you for being a champion for entrepreneurship growth and the job creation this promotes in the United States. We look forward to working with you to help advance this legislative initiative.

Sincerely,

Advanced Medical Technology Association  
Angel Capital Association  
Carta  
Center for American Entrepreneurship

Engine  
Financial Technology Association  
National Venture Capital Association  
QSBS Expert  
Small Business Investor Alliance

