March 18, 2025

The Honorable Marie Gluesenkamp Perez
1431 Longworth House Office Building
Washington, DC 20515

Dear Representative Gluesenkamp Perez:

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to express our strong opposition to the *Carried Interest Fairness Act*. For little revenue gain, this legislation would disrupt a longstanding, proven business model that has encouraged entrepreneurial risk-taking and helped drive innovation in this country. By dramatically changing the treatment of carried interests and imposing a significant tax increase on venture capital formation, the proposed legislation would impede investment in startups and fledgling businesses, harming innovation, economic growth, and jobs.

What is "venture capital"? Venture capital plays an important role in innovation by funding and supporting the growth of early-stage startups. These young companies often don't have access to traditional sources of equity and lending capital. Because of the early investment in companies, venture capital is generally a highly risky, long-term investment, lasting ten to fifteen years. In addition to providing needed funding, VC funds are true partners with the entrepreneurs, providing strategic advice and managerial expertise, offering extensive contact networks, and helping create the pathway to success. By providing seed or Series A capital investments and technical assistance, VCs often help startups scale up and bring their products to commercialization. It is these investments that have pushed nascent technologies into the hands of consumers, while also creating significant job growth as new markets are created.

How many jobs has venture capital created? VC-backed companies have strong job growth rates, even during economic downturns.

- From 1990 to 2022, employment at VC-backed companies grew 169%, compared to 43% in the entire private sector.
- In 2023, VC-backed companies employed about 6 million people.
- VC-backed companies accounted for roughly half of the 1,600 companies that went public over the last two decades, representing 70% of the total market capitalization in public markets.
- VC-backed jobs are in all 435 congressional districts, as well as Washington, D.C. and Puerto Rico.

What industries are impacted by venture capital? VC-backed startups have been critical to driving the pace of innovation in most frontier technology areas in the modern economy, such as renewable energy, biotechnology and artificial intelligence:

- VC investments into AI have grown approximately 2,100% between 2019 and 2024.
- 62% of new medicines between 2016 and 2022 originated with venture capital funding. The two most effective COVID vaccines were developed by small companies that were VC-backed. VC provided another $5 billion in oncology investments in 2023, the last year for which statistics were available.
- U.S.-based startups have attracted nearly half of all global climate technology venture capital investment over the last five years. 1,917 early and growth-stage companies raised $41.8 billion to develop new solutions to clean energy sources; energy storage; food and agriculture; clean transportation and smart infrastructure; and carbon capture and utilization technologies.

Why is the underlying premise for the bill misguided? Carried Interest is neither a loophole nor a benefit to hedge funds.

- Under the tax code, long-term investment and entrepreneurial risk-taking is currently encouraged by taxing long-term capital gains at a low rate. Allowing long-term treatment of capital gains for carried interest is consistent with this policy and merely reflects the general partner's pass-through share of gains realized by the partnership on investments in long-term capital assets. It is a longstanding and central premise of partnership taxation that partners should be taxed on a flow-through basis as if they engaged in the partnership activity directly.
- Hedge funds generally do not benefit from the current tax treatment of carried interests. The Tax Cuts and Jobs Act (TCJA) adopted a three-year holding period requirement for carried interest investments to receive long-term capital gains treatment. Congress made this change to ensure that carried interest only applies to long-term investments. Thus, strategies employed by hedge funds are often not eligible for long-term capital gains tax rates.

Why does the taxation of carried interest matter? The current tax treatment of carried interest encourages billions of dollars of entrepreneurial risk-taking and long-term investment in the U.S. made by venture capital and other sources of private capital. Based on the risk profile of venture capital, changing this tax treatment will disrupt a proven business model for start-up investment in a number of dangerous ways.

- It will make it far less attractive to invest in seed and early-stage startups, prematurely limiting the prospect of bringing new technologies into the hands of consumers and depriving the market of valuable job growth in the innovation sector.
- The current treatment of carried interest recognizes the high-risk nature of these investments. Because of the uncertain nature of investing in new companies and technologies, most of these funds will never be successful enough to return all of the capital for the investors and to earn any income from the carried interest.
- Changing the economics of these deals erects a significant barrier to entry, especially in emerging regions and underrepresented communities. The fees generated by small funds are often not enough for VCs to be able to take meaningful salary, meaning the favorable treatment of carried interest is essential to make the economics work over the long term for participation in venture capital. (For reference, in 2024, the median size venture capital fund was $21.3 million under management.)

In summary, we firmly believe the success of this country depends upon promoting investment in American business and infrastructure. At a time when global competition against China and other countries is at an all-time high, we need to ensure that the U.S. has a leadership role in creating the next generation of technologies such as quantum computing, artificial intelligence and cutting-edge biotechnology. We strongly believe this legislation undercuts those goals.

This legislation disproportionately impacts venture capital because it is the smallest of all alternative investment classes (thereby receiving the least in fees), holds investments far longer than other asset classes, and tends to have a high failure rate. We urge you to reconsider this legislation and instead work with us on ways to harness innovation and new company formation to expand economic opportunity for our nation.

Sincerely,

Bobby Franklin

Bobby Franklin
President and CEO