Qualified Small Business Stock

QSBS: Qualified Small Business Stock (QSBS) incentivizes long-term investment and employee retention in startups and early stage companies, driving job creation and enabling employee-owners and investors to realize the full value of their stock. This bipartisan incentive to drive investment to this sector was first passed in 1993 under President Clinton and later bolstered in 2010 and 2015 under President Obama.

Qualifying Business	*Qualifying Owner*
Domestic C Corporation with less than $50 million in assets at time of stock issuance	Owner must hold the stock for a minimum of 5 years
80%+ of the assets are used in the conduct of 1 or more qualified trades or businesses such as a technology company	Eligible gain is capped at the greater of either $10 million or 10x the cost basis

Proposed Change: House Democrats are proposing to curtail QSBS treatment for taxpayers making an adjusted gross income of $400,000 or more for all dispositions after 9/13/2021.

Recommend: Maintain existing QSBS treatment in its entirety to support investment in early stage companies and their employees

QSBS spurs economic development and job creation

- High-growth startups make new markets, innovate, and create economic opportunity. Such firms are responsible for substantial portion of net new job creation.[1]
- Startup investments carry more risk than investing in more mature companies, and QSBS treatment lowers that hurdle rate and incentivizes long-term investment in the entrepreneurial ecosystem.
- As the US economy recovers from the COVID-19 pandemic, we should incentivize investment in early stage companies instead of reducing access to capital -- particularly in regions beyond the traditional network of Silicon Valley that could benefit from investments and job creation.

QSBS is about employee-ownership

- Joining a small business versus a later stage company can bring with it greater risk. And startups with limited resources often supplement employee compensation with equity ownership to attract talent and align the enterprise.
- If a company succeeds, its owners -- the investors that funded its innovation and growth, as well as the employee-owners who helped build it -- deserve the reward. Equity

[1] Small business startups, especially those with at least 20 employees, play a large role in net job creation. https://sgp.fas.org/crs/misc/R41523.pdf
Business startups play a critical role in overall job creation. In a typical year existing businesses are losing jobs in aggregate (either through business closures or reductions in employment levels) while startups create the jobs that drive net growth in overall employment.
https://www.google.com/url?q=https://budgetmodel.wharton.upenn.edu/issues/2020/11/30/job-creation-covid&sa=D&source=editors&ust=1631642407601000&usg=AOvVaw0w2xXX509EIMukafjCe6VZ

compensation enables the employee owners to participate in the profits they help create. This incentive drives engagement, mission, alignment, and retention to help the firm succeed and the employees benefit.
- Changing the treatment abruptly for existing employee-owners punishes them for decisions they made years ago in the long-term interest of themselves and the companies they invest in and work at.

QSBS drives re-investment and can expand capital
- QSBS helps investors who are supporting the startup, small business, and early-stage ecosystem unlock the full value of their return, enabling them to recycle more of that money into additional investments.
- Venture investments are higher-risk, illiquid strategies for building wealth that can tie up capital for 5 - 10 years. QSBS treatment can support firm economics as emerging managers build their funds.
- Restricting QSBS may diminish capital flowing to startups and early-stage companies building the economic opportunity of tomorrow. Couple this with the related capital gains increase, and it may further tamp down investment.