

February 16, 2022

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Kevin McCarthy
Republican Leader
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, D.C. 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, D.C. 20510

Dear Speaker Pelosi, Leader McCarthy, Leader Schumer, and Leader McConnell:

As leading members of the U.S. startup ecosystem—entrepreneurs, startup founders, incubators, accelerators, support organizations, and companies—responsible for significant job and economic growth, we write to underscore the importance of the present tax treatment of Qualified Small Business Stock (QSBS).

The current tax treatment of QSBS is critical for promoting growth in the startup ecosystem and contributes to the spread of investment across the country. Investment in startups has shifted to more and more places outside of large tech hubs like Silicon Valley and New York over the past decade, and QSBS helps drive this trend.¹ In fact, now over 60 percent of QSBS-qualifying investments are made outside of those hubs, enabling innovation and supporting the American dream for all types of founders all across the country.

QSBS incentivizes founders to take on the risk of starting a company, pushes needed talent to join those companies as early employees, and drives investors to take on the risk of supporting early-stage companies.²

Founders take on significant risks as they begin startups, since the majority of startups fail. Often, founders leave steady, salaried positions to start companies and forgo income until they are able to eventually earn a return on their equity. QSBS incentivizes taking on this risk by providing a reward in the form of 0% capital gains tax on the greater of \$10 million or 10 times the cost basis of the shares.

¹ See, e.g., *the State of the Startup Ecosystem*, Engine (Apr. 2021) at 8, <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/60819983b7f8be1a2a99972d/1619106194054/The+State+of+the+Startup+Ecosystem.pdf>; and see also: <https://static1.squarespace.com/static/571681753c44d835a440c8b5/t/61ef144506424b26bbc75b2f/1643058245470/QSBS+Distribution.pdf>

² See, e.g., Jennifer Weinhart, *Changes to Little Discussed Tax Provision Could Slow Startup Financing*, Engine (Oct. 8 2021) <https://engineadvocacyfoundation.medium.com/changes-to-little-discussed-tax-provision-could-slow-startup-financing-636daf2632b6>.

Founders do not build companies alone, but require the best talent to help them grow and succeed. Early startup employees face similar trade-offs to founders, and QSBS incentivizes skilled individuals to join startups and help them succeed.

Growing a startup involves the sweat equity of its founders and early employees, but requires capital to reach scale. QSBS drives investment in startups by incentivizing investors to support early-stage companies.

Startups contribute significantly to economic growth, dynamism, and job creation. QSBS supports startup founders, and eases their ability to attract early talent and investment. It is a historically bipartisan incentive, and it leads to job creation that is needed as we recover from the pandemic. In that vein, the present tax treatment of Qualified Small Business Stock should be preserved, not altered in future legislation.

Thank you for your consideration.

Sincerely,

10XTS, Inc.

6AM City, Inc.

Accountable

ACME Technologies Inc.

Allied For Startups

Arceo Labs, Inc.

Arkansas Angel Alliance

ASENSEI

Atakama

Bigleaf Networks, Inc.

Black Women Talk Tech

Brass Pen Ventures

Bryght Labs, Inc.

Center for American Entrepreneurship

Channelshift

Chapman and Company

CIC

CO.STARTERS

Cofounders Capital

Convey

CrowdCheck, Inc.

Crowdfundingroadmap Inc.

Curah Inc.

DiverseCity Ventures

Educreations, Inc.

Elegen

Engine

Expa

Flywheel Coworking

Founder Academy

FounderTherapy

FreeFuse

GENERAL GRAPHENE CORPORATION

Generally Intelligent

Gust

H2O Connected LLC

Hacom LLC

Hangar

Helm.ai Inc.

High Mountain Ventures LLC

hobbyDB

Ibotta Inc.

ICoin

iFixit

IncentiLock LLC

Infiltron Software Suite

LiteraSeed, Inc.

Living Meta TV

M1PR, Inc.

Market Mic, LLC

Miso

MITO Material Solutions

Motivate Ventures
Moved
Mycroft AI, Inc.
New North Ventures
nference
niolabs
Nombolo
NXTUS, Inc.
Orange County Startup Council
OccamzRazor
OculoTherapy
OFFICEHQ
Onfleet, Inc.
OWAL Inc.
OZVP V, LLC
Panacea
PIE (Portland Incubator Experiment)
Pioneers 21
Policygenius
Productions.com
Pruve Systems, Inc.
QBOID INC
Quartzy, Inc.
Raydiant Oximetry, Inc
Reactwell, L.L.C.
RealmFive, Inc.
Right Side Capital Management
Right to Start
Romar Capital
Schox Patent Group
Smallstep Labs, Inc.
Starry, Inc.
StartEngine Crowdfunding, Inc.
Startup Champions Network
Startup Port LLC
Stylaquin
TakeLessons
Talk Tech Association
The Venture Center
TheraTec, Inc
thredUP
Tostie Productions, LLC
TRFF
TruckLabs

True Wealth Ventures
UnaliWear
Upgraded Technologies Inc.
U.S. Real Estate Market Holdings, Inc.
Vantage Investments Partners
Venntive
Vitalize Venture Capital
Voatz, Inc.
Waiter.com
Washington Abstract, Inc.