United States Senate
WASHINGTON, DC 20510

May 11, 2010

The Honorable Max Baucus
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Chuck Grassley
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus and Ranking Member Grassley:

In this time of economic uncertainty, we recognize how hard it is to balance the goals of fiscal discipline and job creation. We also understand that your Committee is currently evaluating potential revenue sources to offset the cost of the tax provisions that expired at the end of 2009. It has been reported that one offset – a change in the tax code governing carried interest – is under consideration. We believe that this change without proper protection for the venture capital industry could undermine the ability of small businesses to create jobs and get the economy back on track.

The venture capital industry is one of the few sources of funding for small and start-up businesses, particularly in emerging high tech industries. Today, venture capitalists are investing in the sectors of the future, such as information technology, life sciences and clean technology. It is estimated that venture-backed start-ups are adding over 4,000 jobs each month. In total, companies that were founded with venture capital employ more than 12 million Americans.

Entrepreneurship in the United States has thrived under the current capital gains tax structure because it encourages the long-term, high-risk investment required to grow the innovation economy. Unlike investors in other asset classes, venture capitalists play an active role in creating and building emerging growth companies. They pay the ordinary income tax rate on their salaries just as we all do. However, like the entrepreneurs they back, venture capitalists are motivated to take long-term risks and build companies because the potential to earn carried interest at a favorable capital gains tax rate is available. For most venture capitalists, carried interest is more the exception than the rule, but if a company truly succeeds in becoming a viable employer, the entrepreneurs and their venture partners are rewarded for that long-term capital asset growth. Removing the capital gains tax status for the carried interest earned by these venture capitalists when companies are successful will be a harmful disincentive.

A change to the carried interest provisions could greatly reduce investment in our nation's emerging sectors. Without a tax incentive, fewer venture funds will be created and therefore fewer new companies formed. The impact of this capital redirection would be fewer new jobs. This change in policy could not occur at a worse time; venture capital funds are already facing significant contraction, perhaps as much as 50 percent over the next decade. Without strong venture capital funds, there is no other asset class poised to provide high risk investment and support to start-up companies.

As we contemplate potential revenue sources to fund job creation and other policies, we must think beyond the short-term goal of extending these particular tax provisions. Other nations are aggressively implementing tax incentives to encourage venture capital investment to enable entrepreneurs to innovate and grow. We encourage you to include language in any carried interest provision that maintains a capital gains tax incentive for those who contribute to the viability of our start-up community–venture capitalists. We believe such action is critical to job creation and innovation.

Sincerely,

Bob Casey, Jr.

Robert P. Casey, Jr.
U.S. Senator

Patty Murray

Patty Murray
U.S. Senator

Jeanne Shaheen

Jeanne Shaheen
U.S. Senator

Mark R Warner

Mark R. Warner
U.S. Senator

Scott P. Brown

Scott P. Brown
U.S. Senator