

Sample Letter to Legislators:

September \_\_\_\_\_, 2021

Dear Senator/Congressman/Congresswoman \_\_\_\_\_,

I am writing to you as a constituent who supports entrepreneurship, job creation, and innovation in your **district/state**. I am deeply concerned that there are provisions in the Build Back Better Act that will set our nation back decades by discouraging investment in and support for start-up companies and small businesses —the backbone of job creation and innovation. Specifically, this bill contains a provision that curtails the capital gains exclusion for Qualified Small Business Stock (“QSBS”).

For years, the QSBS rule has proven effective in promoting the support of startups and early-stage growth companies in regions and communities across the country. QSBS limits capital gains taxes for founders, employees, and investors in qualified small businesses, thereby encouraging investment at the earliest stage in a company’s life cycle. It enables employee-owners who take huge risks to join and build an early-stage company to receive a commensurate return on their investment of time, expertise, and hard work. For this very reason bipartisan policymakers have supported and expanded this provision over the past 28 years. Even more importantly, at a time when our country is trying to expand opportunity to more people, our country’s tax regime should advance that ambition, not make it more difficult.

Developing and investing in startups and early-stage growth companies carries substantially more risk than in more mature companies. These companies fail at higher rates and even those that succeed often remain completely illiquid for years. Most investment capital avoids that kind of illiquid situation, meaning that any investment of time, resources, or capital must be for the long-term. The QSBS framework incentivizes that long-term investment and employee retention that are so vital to startup and early-stage company success.

The House Ways and Means Committee recently approved a provision curtailing the QSBS exclusion as part of the Build Back Better Act and applied the tax change to sales of existing stock, as opposed to new investments. This change diminishes the incentives that have successfully bolstered small businesses and their employees and punishes taxpayers who invested in or earned QSBS shares years ago by changing the treatment for existing shares and imposing a tax on them. Employee-owners, founders, and investors made economic decisions in the past based on the QSBS construct supported on a bipartisan basis. This proposed curtailment changes the rules on them after they followed the rules applicable at the time and held up their end of the bargain.

