



November 13, 2017

The Honorable Mitch McConnell
Majority Leader
United States Senate
S-230 U.S. Capitol
Washington, DC 20510

The Honorable Orrin Hatch
Chairman
Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Leader McConnell and Chairman Hatch:

The members of the Coalition of Small Business Innovators (CSBI) represent emerging businesses stimulating the economy and employing hard-working Americans in all 50 states. We have come together to ensure that tax reform works for the small innovative businesses we represent.

Growth-stage innovators are at the forefront of technological advancement; their groundbreaking R&D has the potential to lead to new alternative fuel sources, life-saving medical treatments and devices, breakthrough software developments, cutting-edge nanotechnologies, and more. Most Americans are aware of the commercial-stage companies in these industries – but 90% of innovative companies do not yet have product revenue. These growing businesses are the pipeline for future technological innovations, and they are dedicating tremendous amounts of both human and financial capital to the search for the next generation of scientific advances.

Because small business innovators generally do not generate taxable income, tax reform that focuses only on the needs of commercial-stage, revenue-generating companies will not drive small business growth nor support early-stage R&D. While we appreciate your dedication to lowering America's corporate tax rate, we are concerned that the lack of early-stage innovation incentives in the Tax Cuts and Jobs Act represents a missed opportunity to solidify America's place in the 21st century innovation economy.

The promotion of innovation should be a central component of pro-growth tax reform. Innovative companies create jobs in all 50 states, and their R&D could unlock the secrets to curing cancer or reducing America's dependence on foreign oil. Small business innovators, in particular, would benefit from tax provisions that bolster their research or incentives to drive early-stage investment to their work. As tax reform moves through Congress, we urge you to consider including specific incentives for pre-revenue innovation.

CSBI supports targeted tax incentives to spur research by and investment in small, pre-revenue innovators. Early-stage investment is key to the success of these next generation small businesses, and we encourage Congress to enact provisions to support their growth, including:

- **Section 382 Net Operating Loss (NOL) Reform.** CSBI supports exempting NOLs generated by small business R&D from Section 382's ownership change restrictions. Section 382 reform would allow emerging companies to maintain the valuable NOLs generated during the decades-long, capital-intensive R&D timeline faced by small business innovators.

- **Section 469 R&D Partnership Structures.** CSBI supports a limited exception from the passive activity loss (PAL) rules in Section 469 to allow tax assets generated by innovative research to flow through to an R&D project's investors. This change would allow companies to partner with their investors on a research project, stimulating early-stage R&D. H.R. 2297, the PARTNER Act, would allow these partnership structures, and we support its inclusion in tax reform.
- **Innovation Investor Tax Credit.** CSBI supports an investor tax credit for individuals who support innovative research at its earliest stages. A targeted tax credit, designed to stimulate early-stage capital, would serve as an important incentive for investment in the small businesses that depend on investor capital, rather than product revenue, to fund their R&D. H.R. 4175, the Invest in Innovative Small Businesses Act, represents the type of tax credit we envision and we encourage you to consider its adoption.
- **Section 1202 Capital Gains Reform.** CSBI supports allowing investors in companies with gross assets up to \$100 million or with valuable intellectual property to qualify for Section 1202's lower capital gains rates. By expanding the pool of companies eligible for Section 1202, this modification would bring investment dollars to a wider swath of growth-stage innovators.

CSBI applauds your dedication to reforming the tax code to make America more competitive on the global stage. We also appreciate your drive to lower the corporate tax rate and your support for the R&D credit, both of which will benefit commercial-stage companies in the industries we represent. However, we urge you to take further steps to ensure that early-stage innovation continues to flourish by including in tax reform specific incentives for pre-revenue innovators.

Sincerely,

Coalition of Small Business Innovators
smallbusinessinnovators.org