



July 22, 2013

The Honorable Max Baucus  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510

The Honorable Orrin Hatch  
Ranking Member  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Chairman Baucus and Ranking Member Hatch:

As representatives of small businesses that devote significant assets to innovative research and development (R&D), we support your efforts to reform the tax code, lower the corporate tax rate, and make the U.S. tax system more competitive globally.

The Coalition of Small Business Innovators (CSBI) is a national, non-partisan coalition of organizations dedicated to stimulating sustained, private investment in small companies focusing on the development of transformative, life-changing new technologies. Small business innovation contributes to and benefits from a healthy American economy. We applaud your efforts to lower the corporate tax rate in order to stimulate economic growth and job creation.

CSBI supports your efforts to streamline the tax code in order to facilitate lower rates and international competitiveness. At the same time, Congress also has the opportunity in tax reform to take new steps to inspire innovative R&D. Many research-intensive companies operate without product revenue to fund their scientific progress, so a tax code entirely bereft of research and innovation incentives will not go far enough to support R&D. These pre-tax innovators are helping to lead the search for scientific breakthroughs and revolutionary technologies, and tax reform must encourage their growth. Given that foundational science occurs in the early stages of research and then progresses as a company matures, incentives for pre-revenue innovators will result in growth and stability for the entire innovation ecosystem. As Congress considers tax reform, it should include in that reform targeted provisions that support innovative small companies early in their life cycle.

The Coalition of Small Business Innovators believes that the following sections in the current tax code should be reformed to spur innovation via private investment:

- **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. Relaxing the PAL rules to allow investors to enjoy a more immediate return on their investment would incentivize them to invest at an earlier stage in a company's development.
- **Section 382 Net Operating Loss (NOL) Reform.** CSBI supports exempting NOLs generated by qualifying small business R&D from Section 382's ownership change restrictions. This change would allow small companies the freedom to raise capital for innovative research without fear of losing their valuable NOLs.
- **Section 1202 Capital Gains Reform.** CSBI supports allowing investors in companies with gross assets up to \$150 million or with valuable IP to qualify for Section 1202's beneficial capital gains rates. These reforms would allow more growing innovators to attract investors to fund their vital research.

The Coalition of Small Business Innovators believes that Congress can and should incentivize R&D by groundbreaking small companies. Tax reform can improve America's economic health by recognizing the



importance of innovation and its potential to save lives, create new technologies, spur scientific advancement, and create vital jobs in growing businesses. Federal tax policy that recognizes the special demands placed on highly innovative pre-revenue companies will speed the development of products to vastly improve the lives of Americans and people around the world.

We look forward to working with you as Congress undertakes this important effort.

Sincerely,

AdvaMed

Algae Biomass Organization

American Small Manufacturers Coalition

Association of Clinical Research Organizations

Biotechnology Industry Organization

Center for Innovative Technology

Commercial Spaceflight Federation

CONNECT

Electricity Storage Association

Medical Device Manufacturers Association

NanoBusiness Commercialization Association

National Association of State Energy Officials

National Council for Advanced Manufacturing

Neurotechnology Industry Organization

TechAmerica

Water Innovations Alliance

The **Advanced Medical Technology Association (AdvaMed)** is a trade association that leads the effort to advance medical technology in order to achieve healthier lives and healthier economies around the world and acts as the common voice for companies producing medical devices, diagnostic products and health information systems. AdvaMed advocates on a global basis for the highest ethical standards, timely patient access to safe and effective products, and economic policies that reward value creation.

The **Algae Biomass Organization (ABO)** is a non-profit organization whose mission is to promote the development of viable commercial markets for renewable and sustainable commodities derived from algae. Its membership is comprised of people, companies, and organizations across the value chain.

The **American Small Manufacturers Coalition (ASMC)** is a trade association of manufacturing extension agents who work to improve the innovation and productivity of America's manufacturing community. ASMC advocates for legislative and programmatic resources that allow small manufacturers to better compete in the global marketplace. ASMC and its members do this by increasing awareness of the importance of American small manufacturers, the challenges that they face, and the federal legislation and programs that affect them.

The **Association of Clinical Research Organizations (ACRO)** represents the world's leading clinical research organizations (CROs). ACRO members provide specialized services that are integral to the development of drugs, biologics, and medical devices. ACRO advances clinical outsourcing to improve the quality, efficiency, and safety of biomedical research.

The **Biotechnology Industry Organization (BIO)** is the world's largest biotechnology trade association. BIO provides advocacy, business development, and communications services for more than 1,100 members worldwide. BIO's mission is to be the champion of biotechnology and the advocate for its member organizations – both large and small.

The **Center for Innovative Technology (CIT)** creates technology-based economic development strategies to accelerate innovation, imagination, and the next generation of technology and technology companies. Created in 1985, CIT, a non-profit corporation, plugs gaps at the earliest stages of the Innovation Continuum – commercialization and seed funding – as it helps entrepreneurs launch and grow high-growth technology companies and create high-paying jobs for the future. To facilitate national innovation leadership and accelerate the rate of technology adoption, CIT creates partnerships between innovative technology start-up companies and advanced technology consumers. Lastly, CIT builds the infrastructure for new innovation economies with expert broadband strategies.

The **Commercial Spaceflight Federation (CSF)** is the industry association of leading businesses and organizations working to make commercial human spaceflight a reality. The mission of the Commercial Spaceflight Federation is to promote the development of commercial human spaceflight, pursue ever higher levels of safety, and share best practices and expertise throughout the industry.

**CONNECT** is a program that catalyzes the creation of innovative technology and life sciences products by linking inventors and entrepreneurs with the resources they need for success. Since 1985, CONNECT has assisted in the formation and development of more than 3,000 companies. CONNECT focuses its efforts on accelerating the commercialization of new technology and life sciences products.

The **Electricity Storage Association (ESA)** is the world's premier energy storage trade organization. ESA's members include utilities, technology developers and manufacturers, national laboratories, system designers, and academia using the ESA as the leading forum to promote a better understanding of the benefits of storage in the electricity grid. Long considered the leading technical resource on storage related issues, ESA members actively engage in numerous activities to promote the development and commercialization of competitive and reliable energy storage systems.

The **Medical Device Manufacturers Association (MDMA)** is a national trade association providing educational and advocacy assistance to innovative and entrepreneurial medical technology companies. Since 1992, MDMA has been the voice for smaller companies, playing a proactive role in helping to

shape policies that impact the medical device innovator. This is accomplished by maintaining relationships with key Members of Congress, senior staff at FDA and CMS, and through the grassroots support of MDMA members.

The **NanoBusiness Commercialization Association (NanoBCA)** is a trade organization dedicated to promoting the commercialization of nanotechnology and helping companies bring affordable, life-improving nanotech products to the market.

The **National Association of State Energy Officials (NASEO)** is the only national non-profit association for the governor-designated energy officials from each state and territory. Formed by the states in 1986, NASEO facilitates peer learning among state energy officials, serves as a resource for and about state energy offices, and advocates the interests of the state energy offices to Congress and federal agencies.

The **National Council for Advanced Manufacturing (NACFAM)** is an industry-led policy research organization, working collaboratively with industry, education, government, and trade/professional associations since 1989 to accelerate the development of advanced technologies and related workforce skills.

The **Neurotechnology Industry Organization (NIO)** is the first and only trade group that lobbies on behalf of neuroscience-focused companies, brain research institutes, and patient advocacy groups across the spectrum of neurological disease, psychiatric illnesses, and nervous system injuries.

**TechAmerica** is the leading voice for the Information and Communications Technology (ICT) industry in the United States. TechAmerica's membership is comprised of large, medium, and small technology companies that create a variety of products and deliver a multitude of services in the private sector and to governments at the state and national level. TechAmerica's top priority is to foster an environment for their members to succeed through comprehensive global, national, and regional advocacy, and high-level business intelligence that delivers an edge in the marketplace.

The **Water Innovations Alliance (WIA)** is the public policy voice of the world's water researchers, technologists, and innovators. The Alliance's role is to advocate policies that promote the aggressive development of water technologies and innovations across all sectors and users of water by creating new market opportunities, increasing funding, strengthening research and development programs, removing regulatory and market barriers, and improving education, communication, and outreach efforts.