



ANGEL CAPITAL ASSOCIATION

October 15, 2021

The Honorable Ruben Gallego
Congressman
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Gallego:

In his effort to spur entrepreneurship in the United States, President Obama included a tax benefit called Qualified Small Business Stock (QSBS) in his fiscal policy. This policy encouraged the creation and investment of new businesses during their most risky stage. The policy allows investors and employees to have tax free capital gains up to a certain limit if they built or invested in a small business and held that stock for a minimum of five years.

Besides encouraging the creation of new businesses, QSBS has been used to draw in more female entrepreneurs and people of color into the start-up economy. Historically, these groups received a disproportionately low share of these investment dollars and therefore have also not benefitted from the booming start-up economy to the same degree as traditional groups.

In the last few years alone, Black entrepreneurs have increased their share of angel investments from 2% of total to 14.7% of total. Latinx have increased their share of angel investments from .8% to 1.6%. Females have increased from 26% to 30% over that same period. While there is a long way to go, the increased focus on ensuring equal access to risk-capital combined with the QSBS benefit is working for new entrepreneurs.

From the investor perspective, there has not been as much progress. Only 7 percent of venture capital investors are Black or Latinx and these numbers have not increased in the last several years. As you know, venture funds need capital from limited partners. Since limited partners can receive the QSBS benefits, any limitation on the current benefits could literally send these already paltry numbers backwards. This would be a tragic result.

The foundation of wealth creation in this country begins with small businesses. Just as we are starting to see some growth in the percentage of female and entrepreneurs of color, making QSBS less attractive could stop that progress cold.

The members of the Angel Capital Association (ACA), the Global Accelerator Network (GAN), and the Global Startup Studio Network (GSSN) implore you to consider, along with your colleagues in the House and Senate, to leave this policy unchanged. The CBO scores the proposed change at less than \$500mm per year in revenue at the expense of hurting the next generation of builders and risk-takers and job creators.

Sincerely,

Patrick Gouhin
Chief Executive Officer, ACA

Sincerely,

Patrick Riley
Chief Executive Officer, GAN/GSSN