



ACA ANGEL CAPITAL ASSOCIATION

July XX, 2020

The Honorable Dean Phillips
Member of Congress
1305 Longworth House Office Building
Washington, DC 20515

The Honorable Jackie Walorski
Member of Congress
419 Cannon House Office Building
Washington, DC 20515

Dear Representatives Phillips and Walorski:

We write as a coalition of advocates for the startup ecosystem to voice our strong support for your legislation to support startups through the economic crisis. By allowing startups to monetize tax assets generated through a focus on researching and producing products and technologies that create long-term value, your legislation is by far the most significant proposal under consideration to provide liquidity to startups and sustain critical economic activity that will pay long-term dividends to American workers and the economy. We commend your strong leadership during this crisis and look forward to working with you to include this proposal in an upcoming economic recovery package.

Research has consistently demonstrated that new businesses – “startups” – are disproportionately responsible for the innovations that drive economic growth and job creation. Startups, therefore, are

crucial to the U.S. economy's capacity to respond to, and recover from, the COVID-19 crisis and the damage it has inflicted on economic growth and the labor market.

As the COVID-19 pandemic rages, startups across America are struggling to find a position to survive an economic crisis of unknown depth and duration. These companies are either in a loss position or completely pre-revenue while they research and develop new products and technologies, a feature of the business model which unintentionally locked startups out of both the Main Street Loan Program and the CARES Act net operating loss (NOL) provision. Broadly speaking, during economic crises investors tend to pull capital away from high-risk illiquid investment and towards safer and more liquid assets, putting many startups at risk of exhausting the investment capital necessary to continue operations during a protracted and uncertain downturn. Left unchecked, a pullback will cost hundreds of thousands of quality jobs and could cost the country years of lost innovation amid an increasingly competitive global race for leadership in the next generation of technologies.

The XXXX will allow C-corporations with less than 1500 employees to monetize up to \$25 million in net operating loss (NOL) carryforwards and R&D credits, and provide a bonus for tax assets generated by research and production of products intended to prevent, diagnose, and treat COVID-19. Startups operate in a loss position for years, investing heavily in growth activities such as research and hiring, necessarily generating tax assets in a bid to develop long-term value. H.R. XXXX will allow startups to bring forward the value of these tax assets, providing fast and efficient capital availability to support companies through the downturn. Companies that survive the crisis will pay the Treasury back through higher tax payments once they become profitable.

As policymakers determine the contours of the next economic relief package and decide how much to focus on short-term relief or long-term recovery, your legislation will accomplish both objectives. This bill will inject liquidity into the startup ecosystem, providing capital that will allow startups to pull research projects off the shelves, hire or rehire employees laid off or furloughed during the crisis, build out new facilities, and generally sustain critical economic activities through the crisis. This will create jobs and accelerate economic activity in the short-term that will also strengthen our nation's economic future.

This acceleration will create and retain high-quality 21st century jobs, increase economic activity in regions across the country, and help to maintain America's leadership in innovation during an incredibly uncertain time. Acceleration of American technological progress will also advance efforts to address climate change and improve living standards in the United States and across the world.

Finally, the bonus for tax assets generated by research and production of products such as vaccines, therapeutics, diagnostic testing, and other products needed to fight COVID-19, will immediately increase investment in these critical products by American startups, some of the world's most nimble and innovative companies. Hundreds of these companies are currently working on solutions to the health crisis with capital availability being their greatest limitation. The tax assets bonus included in this legislation will have an immediate impact, increasing research and production of the technologies needed to fight COVID-19 in startups across the country. Your bill will provide a broad-based approach to fighting the pandemic and getting the country to get back to work.

On behalf of startups, their 2.27 million workers, and investors, we are thrilled to endorse H.R. XXX. This is by far the most significant pro-startup proposal under consideration during economic recovery package negotiations. We thank you for your strong leadership and look forward to working with you to have this proposal included in the next economic recovery package.