

Venture capital group wants tax breaks and regulatory relief to spur growth

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A special, lowered capital gains tax for investors in companies that debut on public stock exchanges could help stimulate the economy and create many new jobs, leaders of a national venture capital group said Wednesday.

Lowering the federal capital gains tax to 10 percent from 15 percent for a two- or three-year period for companies that make initial public offerings would create such broad economic benefits that it would enhance tax revenues over the long term, said **Dixon Doll, chairman of the National Venture Capital Association.**

The tax incentive proposal was part of a "four pillar" agenda the NVCA unveiled at its annual conference in Boston aimed at reinvigorating a venture industry now struggling with an ice-cold IPO market and sluggish pace of mergers and acquisitions.

The proposals also include a review of regulations such as Sarbanes-Oxley that are said to raise costs and slow the pace toward an IPO. Two other "pillars" address problems in the private sector ecosystem that includes investment banks, accounting firms and institutional investors. These initiatives involve efforts to develop new banking models to foster IPOs and identify new institutional investors for small companies.

Healthy IPO and M&A activity is vital to venture capitalists and the entrepreneurs they invest in, providing the cash "exits" that enable VCs to realize profits and deliver gains to their limited partners, such as pension funds, university endowments and wealthy institutions and families. Amid a

global recession, VCs are growing increasingly worried that LPs will reduce or pull out of venture funding without satisfactory returns.

To illustrate the concerns, the NVCA compared the 1990s to the current decade. From 1990 to 2000, there were 1,776 IPOs, accounting for 56 percent of all exits. From 2001 to 2008, there were 392 IPOs, accounting for only 13 percent of exits.

The IPO market was gaining momentum in 2007, but slowed to such a trickle in early 2008 that the NVCA declared a "crisis" in the market. A few months later, conditions grew dramatically worse with the collapse of Lehman Brothers and the ensuing global financial crisis.

Silicon Valley business interests and VCs have generally cheered the Obama administration's embrace of initiatives such as alternative energy and health care reform, while some administration comments have stirred fear that VCs could face greater regulation and taxation. In the past tax debates, VCs have struggled in Washington to distinguish their industry, which provides cash in exchange for equity stakes, from private equity firms that rely more on financing.

But NVCA president Mark Heesen spoke optimistically about the Obama administration and Capitol Hill embracing its policy priorities. "We as an industry are not asking for a bailout, unlike many others," Heesen said.

Silicon Valley is the world's leading hub of technology and the venture capital industry. Reviving the IPO market, VCs say, would have a broad economic impact because companies that go public create nearly 250 percent more jobs than startups that are absorbed in M&As.

The NVCA cited a study by research firm Global Insight that estimated that in 2008, public companies once backed by venture capital accounted for more than 12 million U.S. jobs and \$2.9 trillion in revenues — about 21 percent of U.S. gross domestic product. The research also found that 92 percent of job growth at these companies occurs once the company enters the public markets.

The job creation data "was shocking even to me," Doll said. "If you don't have IPOs, you won't get as much of the job creation we need so critically."

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