

The Honorable Nancy Pelosi
H-232, The Capitol
Washington, DC 20515

The Honorable Richard Neal
1102 Longworth House Office Building
Washington, DC 20515

October 4, 2021

Dear Speaker Pelosi and Chairman Neal:

We write to express our strong opposition to the carried interest provisions included in the Ways & Means Committee tax bill. As entrepreneurs of color, we believe this proposal will make it harder for us to continue to grow our businesses, support jobs in our communities, and achieve wealth for our families and employees.

The Ways & Means Committee's carried interest proposal stands to undercut the considerable progress that minority and diverse venture capital and private equity firm professionals are making across the country. The carried interest provisions undermine a vital source of capital and investment for minority-owned businesses and communities. Additionally, the provisions will make it harder for diverse entrepreneurs and business owners to climb the ladder of opportunity— after previous generations were allowed to benefit. The carried interest provisions are in direct conflict with the other goals of the Build Back Better agenda, which seek to build a more inclusive economy and provide on-ramps to success.

The Committee's proposal does not raise enough money or accomplish an obvious policy objective, beyond punishing certain forms of private investment. It raises a minimal amount of revenue in the context of the broader legislation and is a subset of the larger capital gains rate. The proposal would result in a less fair, more uneven playing field than current law. While the carried interest issue has been a topic of political debate over the years, the outdated rhetoric does not reflect reality. The rhetoric fails to realize that it is an incentive for women and diverse-owned firms to partner with investors providing capital and operational expertise to promising businesses that are often overlooked. Importantly, the rhetoric misses a fundamental aspect of carried interest— it lets entrepreneurs who may lack capital but possess the necessary skills to grow a business successfully to receive their share of the partnership. Carried interest allows entrepreneurs to put themselves on the same footing as those who already have wealth.

Carried interest is simply the appropriate fair tax policy. It serves to align the interest of partners— providing an incentive for funds to grow businesses and to reach for new opportunities in overlooked areas. Ultimately, carried interest is treated as a long-term capital gain because the character of the underlying asset is a capital asset. There's inherent entrepreneurial risk in these investments, and it should continue to be treated appropriately as a capital gain without undue burdens. Further changes would cause numerous distortions in our economy unnecessarily.

Recently, there have been countless news stories and announcements about the progress being made by venture capital and private equity funds to increase diversity amongst their ranks and to increase capital allocated to emerging fund managers and diverse communities. In fact, funding for black entrepreneurs increased by four times through the first half of 2021 compared to last year. The efforts to further change carried interest capital gains threatens to undermine the progress that has been made with a rather arbitrary and punitive 98 percent tax hike.

This will discourage private funds and investment in our communities— historically overlooked by other capital sources. There's a long history of discrimination in finance, but funds—and this associated incentive for them— allow us to help correct the issue. Building successful diverse asset managers is not only a goal of ours, but a goal that many of your colleagues and advocates have actively promoted. The proposal specifically includes a back-door mechanism to eliminate the long-term capital gains treatment for carried interest on many of our investments and funds by delaying when the clock starts on

its holding period requirement. The proposal will make it next to impossible for many investments to ever receive long-term capital gains treatment. This is a dramatic change compared to current law and one that seems to have been buried in the proposal.

The delay in the start of the holding period clock is in addition to the proposal's advertised holding period increase to five years. Such a long holding period will inhibit our ability to build our firms, attract new talent and deploy capital to entrepreneurs, many of whom are first time founders of color. Notably, the proposal carves certain real estate investments out of the 5-year holding period. If the societal benefits of real estate make them deserving of a 3-year holding period, shouldn't our contributions be as well?

The proposal may also make it harder for incoming partners at venture capital and private equity firms to receive carried interest in the firm's preexisting funds. This would discourage diverse partners from joining venture capital and private equity firms, the exact opposite of what is needed.

Finally, the proposal reaches beyond just carried interests and could subject the value of the businesses we've created to the new requirements. These new requirements stunt the cycle that has traditionally driven entrepreneurship and innovation in communities – a process by which entrepreneurs grow and sell businesses, then reinvest in others that need support with funding.

Carried interest has been treated as long-term capital gains since the Tax Code's inception in 1913. Past entrepreneurs have benefited from the preferential long-term capital gains rates for carried interest as they built and grew their venture capital and private equity firms. That same opportunity should be afforded to our generation. Congress has already raised taxes on carried interest in recent history. We encourage you to not go any further.

Sincerely,

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