I want to thank House Committee on Ways & Means Chairman Camp and Ranking Member Levin and Subcommittee on Select Revenue Measures Chairman Tiberi and Ranking Member Neal for holding this important hearing on expiring tax provisions.

I welcome the opportunity to outline the merits of the bill I introduced on March 20, H.R. 4226, to extend tax provisions targeted to encourage investment in small businesses. H.R. 4226 makes permanent the full exclusion from gross income and for Alternative Minimum Tax purposes any gain from the sale or exchange of designated “Qualified Small Business” (QSB) stock held for five years or longer. The provision was originally enacted as part of the Small Business Jobs Act of 2010 and extended in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and, if not extended, will expire January 1, 2012.

As the country continues to grapple with the fallout from the Great Recession, including persistently high unemployment, it is absolutely imperative that Congress acts with both purpose and prudence to support the growth of small business, so that they may expand and hire. My bill is only a small piece of a larger undertaking for Congress to get the economy back on firm footing and to put people to work, but it is a vital component in that equation, as one barrier inhibiting small businesses from growing is the challenging of attracting capital following the recession.

I endorse the approach of H.R. 4226 because it utilizes market forces to demand that the taxpayer benefit it establishes actually be used to create jobs by putting capital at risk on a long-term basis. Rather than providing a blanket tax cut with the vague “hope for the best” approach inherent in other tax proposals, H.R. 4226 instead rewards those small companies that market discipline and competition deem fit and only those investors that put capital at risk. It is a targeted approach that does not benefit short-term speculators and that incorporates important anti-abuse measures, so that it is not gamed by creative Wall Street lawyers and traders, or outright fraudsters.

Section 1202 of the Internal Revenue Code is intended to attract investment in new ventures, small business, and specialized business investments by providing tax incentives to non-corporate investors that make long-term investments in these businesses. However, the value of
the incentive eroded when regular long-term capital gains were lowered to 15 percent. Accordingly, Congress temporarily provided for a full exclusion under Section 1202 to restore the incentive, but unfortunately, because the provision was not permanent, it was underutilized. H.R. 4226 would both preserve the full exclusion and make it permanent.

The bill also is narrowly targeted to shield it from abusive structures or uses that would permit the benefit to accrue to companies or investors that Congress did not intend. In order to qualify for the benefit, a non-corporate taxpayer must acquire and hold stock in a qualified C-corporation in an original issuance (directly or through an underwriter). The definition of QSB in Section 1202 is narrowly tailored to mean domestic C-corporations if the aggregate gross assets before the date of issuance of the stock do not exceed $50 million, the aggregate gross assets of the corporation immediately after the issuance of stock do not exceed $50 million, and the corporation agrees to submit to the IRS and its shareholders any reports that the IRS may require to carry out the purpose of Section 1202.

I hope that all my colleagues will support this bill. The American people deserve a Congress that acts with purpose and prudence and H.R. 4226 does both. It encourages long-term investments in small business and it does so in a way that utilizes market forces so that the benefits accrue to the best companies and that actually requires capital to come off the sidelines. Thank you again for the opportunity to provide my perspectives on this important legislation for providing small businesses enhanced opportunities to access capital.