

**HB**

**252**

<TARGET><BILL>HB 252</BILL><SUBJECT>HB  
252</SUBJECT><COMM>HFIN27</COMM></TARGET>

# HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 24, 2012

FURTHER REFERRALS:

Date of Committee Action: MARCH 13, 2012

The FINANCE Committee considered:

HB 252

HOUSE BILL NO. 252

"An Act exempting certain small businesses from the corporate income tax; and providing for an effective date."

HB 252-INCOME TAX EXEMPTION

Recommends it be replaced with  HCS or  CS for HB 252 (FIN)  
 For Senate Bills with new title:  Technical Title  New Title: HCR \_\_\_\_\_  Same Title  New Title

- attach amendments
- add new referral to \_\_\_\_\_ Committee
- Letter of Intent \_\_\_\_\_ Committee

List of Abbrev for Depts.:  
 ADM  
 CED  
 COR  
 CRT  
 EED  
 DEC  
 DFG  
 GOV  
 DHS  
 LWF  
 LAW  
 LEG  
 MVA  
 DNR  
 DPS  
 REV  
 DOT  
 UA

<u>NEW FISCAL NOTES</u>				
*FN# is assigned by Chief Clerk's Office				
*FN#	List by Dept(s):	Fiscal	Indet.	Zero
	REV	✓		

<u>PREVIOUS FISCAL NOTES</u>				
FN#	List by Dept(s):	Fiscal	Indet.	Zero

<u>Signing with recommendations</u>	Printed Last Name	DP	DNP	NR	AM
	Leare	✓			
Anna Fairclough	FAIRCLOUGH			✓	
	T. Wilson			✓	
	TOLLENBERG	✓			
	Soule	✓			
	NEUMAN			✓	
	LISTELLO	✓			
	Edgmon	✓			
	DOOGAN	✓			
Chair:	Stolte	✓			
Chair:	Thomas	✓			

**CS FOR HOUSE BILL NO. 252(FIN)**

**IN THE LEGISLATURE OF THE STATE OF ALASKA**

**TWENTY-SEVENTH LEGISLATURE - SECOND SESSION**

**BY THE HOUSE FINANCE COMMITTEE**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVES COSTELLO, Lynn, Keller, Feige, Pruitt, Thomas, Tuck, Holmes, Peggy Wilson, Stoltze, Herron, Foster, Johnson, Gara, Olson**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act exempting certain small businesses from the corporate income tax; and**  
2 **providing for an effective date."**

3 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

4 **\* Section 1.** AS 43.20.012 is amended to read:

5 **Sec. 43.20.012. Limitation on application of chapter; credits. (a)** The tax  
6 imposed by this chapter does not

7 **(1) apply to an individual;**

8 **(2) apply to a fiduciary; or**

9 **(3) for a tax year beginning after December 31, 2012, apply to an**

10 **Alaska corporation that is a qualified small business and that meets the active**  
11 **business requirement in 26 U.S.C. 1202(e) as that subsection read on January 1,**  
12 **2012 [APPLY TO INDIVIDUALS OR TO FIDUCIARIES].**

13 **(b) An** [HOWEVER, AN] individual may file a return under this chapter in  
14 order to receive a tax credit under AS 43.20.013.

1 \* **Sec. 2.** AS 43.20.012 is amended by adding new subsections to read:

2 (c) For the purposes of (a)(3) of this section,

3 (1) whether a corporation qualifies under (a)(3) of this section shall be  
4 determined on the first day of the tax year for which the corporation claims it qualifies  
5 under (a)(3) of this section;

6 (2) all corporations that are members of the same parent-subsiary  
7 controlled group shall be treated as one corporation.

8 (d) In this section,

9 (1) "Alaska corporation" means a corporation that has been  
10 incorporated in the state or is authorized to do business in the state;

11 (2) "parent-subsiary controlled group" has the meaning given in 26  
12 U.S.C. 1202 as that section read on January 1, 2012;

13 (3) "qualified small business" has the meaning given in 26 U.S.C. 1202  
14 as that section read on January 1, 2012, and does not include a construction,  
15 transportation, utility, or fisheries business.

16 \* **Sec. 3.** AS 43.20.012 is repealed and reenacted to read:

17 **Sec. 43.20.012. Limitation on application of chapter; credits.** The tax  
18 imposed by this chapter does not apply to individuals or to fiduciaries. However, an  
19 individual may file a return under this chapter to receive a tax credit under  
20 AS 43.20.013.

21 \* **Sec. 4.** Sections 1 and 2 of this Act take effect July 1, 2012.

22 \* **Sec. 5.** Section 3 of this Act takes effect July 1, 2023.

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

cost # codes

Bill Version

HB 252

Fiscal Note Number

Publish Date

Identifier (file name) HB252-DOR-TAX-02-29-12

Dept. Affected Revenue

Title

Income Tax Exemption

Appropriation Taxation and Treasury

Allocation Tax Division

Sponsor

Representative Costello

Requester

House Finance

OMB Component Number 2476

**Expenditures/Revenues**

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>	<b>FY13</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>
Personal Services	108.5		108.5	108.5	108.5	108.5	108.5
Travel							
Services	4.7		4.7	4.7	4.7	4.7	4.7
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>113.2</b>	<b>0.0</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>

<b>FUND SOURCE</b>		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	113.2		113.2	113.2	113.2	113.2	113.2
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>113.2</b>	<b>0.0</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>	<b>113.2</b>

<b>POSITIONS</b>								
Full-time	1		1	1	1	1	1	1
Part-time								
Temporary								

<b>CHANGE IN REVENUES</b>	***	***	***	***	***	***	***
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**Estimated SUPPLEMENTAL (FY12) operating costs** \_\_\_\_\_ (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Estimated CAPITAL (FY13) costs** \_\_\_\_\_ (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

**Why this fiscal note differs from previous version (if initial version, please note as such)**

**New language adds new categories of businesses that do not qualify for the exemption.**

Prepared by Johanna Bales, Deputy Director  
 Division Tax  
 Approved by Alicia Egan, Legislative Liaison  
Department of Revenue

Phone (907) 269-6628  
 Date/Time 2/29/2012 10:30 a.m.  
 Date 2/29/2012

## FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. HB 252

### Analysis

#### Bill Language:

This bill would exempt corporations from the corporate income tax if they are determined to be a "qualified small business" as that term is defined in Section 1202 of the Internal Revenue Code (IRC) as that section read on January 1, 2012. Under IRC Section 1202, a "qualified small business" is a corporation with no more than \$50 million in aggregate assets and is engaged in a "qualified trade or business". A "qualified trade or business" is any business *other than* personal services, banking, finance, insurance, farming, oil and gas, mining, hotel, motel, restaurant, construction, transportation, fisheries or utilities. Taxpayers engaged in businesses such as manufacturing, retail, wholesale, biotechnical and software development would qualify for the exemption. Taxpayers must also use at least 80% of their assets in the active conduct of the "qualified trade or business."

#### Revenues:

It is difficult to determine exactly how many companies would qualify for the exemption as, although DOR is able to identify those taxpayers with \$50 million or less in aggregate assets and the primary industry in which they are engaged, DOR cannot ascertain whether 80% or more of the corporation's assets are being used in the conduct of a qualified trade or business.

#### Expenditures:

This bill will exempt corporations from Alaska's corporate income tax based on certain criteria identified in IRC Section 1202. IRC Section 1202 is an individual income tax provision which allows individuals who invest in "qualified small businesses" to exclude 50% of the gain on the sale of stock from their individual income tax. IRC Section 1202 does not exempt "qualified small businesses" from federal corporate income tax. Therefore, corporations which believe they are exempt from Alaska corporate income tax would still be required to file an Alaska corporate income tax return along with a statement claiming this exemption. This bill would require the Department of Revenue to make independent determinations as to whether corporations, which believe they meet the requirements of IRC Section 1202 and are exempt from Alaska corporate income tax, are, in fact, exempt. The Department will be required to review a substantial number of tax returns each year to ascertain if a corporation meets the federal guidelines. The Department expects it will need one additional Corporate Income Tax Auditor II to ensure the proper administration of this legislation.

*Adopted  
2/29/12*

27-LS1085\D  
Nauman  
2/29/12

**CS FOR HOUSE BILL NO. 252(FIN)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVES COSTELLO, Lynn, Keller, Feige, Pruitt, Thomas, Tuck, Holmes,  
Peggy Wilson, Stoltze, Herron, Foster, Johnson, Gara, Olson

**A BILL**

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5 Sec. 43.20.012. Limitation on application of chapter; credits. (a) The tax  
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7 (1) apply to an individual;

8 (2) apply to a fiduciary; or

9 (3) for a tax year beginning after December 31, 2012, apply to an  
10 Alaska corporation that is a qualified small business and that meets the active  
11 business requirement in 26 U.S.C. 1202(e) as that subsection read on January 1,  
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2 (c) For the purposes of (a)(3) of this section,

3 (1) whether a corporation qualifies under (a)(3) of this section shall be  
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6 (2) all corporations that are members of the same parent-subsiary  
7 controlled group shall be treated as one corporation.

8 (d) In this section,

9 (1) "Alaska corporation" means a corporation that has been  
10 incorporated in the state or is authorized to do business in the state;

11 (2) "parent-subsiary controlled group" has the meaning given in 26  
12 U.S.C. 1202 as that section read on January 1, 2012;

13 (3) "qualified small business" has the meaning given in 26 U.S.C. 1202  
14 as that section read on January 1, 2012, and does not include a construction,  
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19 individual may file a return under this chapter to receive a tax credit under  
20 AS 43.20.013.

21 \* **Sec. 4.** Sections 1 and 2 of this Act take effect July 1, 2012.

22 \* **Sec. 5.** Section 3 of this Act takes effect July 1, 2023.

# FISCAL NOTE

STATE OF ALASKA cost # codes  
2012 LEGISLATIVE SESSION

Bill Version CSHB 252(L&C)  
Fiscal Note Number 1  
Publish Date 2/24/12 (H)

Identifier (file name) HB252-DOR-TAX-02-20-12 Dept. Affected Revenue  
Title Income Tax Exemption Appropriation Taxation and Treasury  
Representative Costello Allocation Tax Division  
Sponsor House Labor & Commerce OMB Component Number 2476  
Requester

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates				
			FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>	<b>FY13</b>	<b>FY13</b>					
Personal Services	325.5		325.5	325.5	325.5	325.5	325.5
Travel							
Services	14.1		14.1	14.1	14.1	14.1	14.1
Commodities							
Capital Outlay							
Grants, Benefits							
Miscellaneous							
<b>TOTAL OPERATING</b>	<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF	339.6		339.6	339.6	339.6	339.6	339.6
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>339.6</b>	<b>0.0</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>	<b>339.6</b>

POSITIONS								
Full-time	3		3	3	3	3	3	3
Part-time								
Temporary								

CHANGE IN REVENUES	***	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required)  
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Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial fiscal note.

Prepared by Johanna Bales, Deputy Director  
Division Tax  
Approved by Alicia Egan, Legislative Liaison  
Department of Revenue

Phone (907) 269-6628  
Date/Time 2/17/2012 6:30 p.m.  
Date 2/20/2012

FISCAL NOTE #1

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. CSHB 252(L&C)

**Analysis**

**Bill Language:**

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**Revenues:**

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**Expenditures:**

This bill will exempt corporations from Alaska's corporate income tax based on certain criteria identified in IRC Section 1202. IRC Section 1202 is an individual income tax provision which allows individuals who invest in "qualified small businesses" to exclude 50% of the gain on the sale of stock from their individual income tax. IRC Section 1202 does not exempt "qualified small businesses" from federal corporate income tax. Therefore, corporations which believe they are exempt from Alaska corporate income tax would still be required to file an Alaska corporate income tax return along with a statement claiming this exemption. This bill would require the Department of Revenue to make independent determinations as to whether corporations, which believe they meet the requirements of IRC Section 1202 and are exempt from Alaska corporate income tax, are, in fact, exempt. The Department will be required to review as many as 1,000 tax returns or more each year to ascertain if a corporation meets the federal guidelines. The Department expects it will need three additional Corporate Income Tax Auditors II to ensure the proper administration of this legislation.



REPRESENTATIVE MIA COSTELLO  
Member, House Finance Committee

## SPONSOR STATEMENT FOR HOUSE BILL 252

House Bill 252 seeks to encourage the development of high-growth technology and research companies in Alaska, improve Alaska's business climate, promote the diversification of Alaska's economy, and encourage entrepreneurship and the development of Alaska's venture capital investment sector. It would also enhance Alaskan entrepreneurs' ability to remain in Alaska to start their businesses and raise their families here at home.

House Bill 252 takes advantage of a provision in the federal tax code to promote the development of high-growth tech corporations in Alaska. It does this by exempting from the state corporate income tax small businesses incorporated as C-corporations in Alaska in select industries identified in section 1202 of the Internal Revenue Code.

The federal Small Business Jobs Act of 2010, passed as part of President Barack Obama's economic stimulus initiatives, enhanced incentives under section 1202 for investment in "qualified small businesses", which are small start-up corporations doing business in selected industries and with assets of less than \$50 million. The corporations which qualify under section 1202 are typically intellectual property-based research and technology companies, which tend to be highly mobile and have many options regarding where to locate their business.

When compared to other forms of corporations, C-corporations have fewer restrictions on the ownership and transferability of shares, and can more easily secure venture capital funding.

C-corporations in Alaska currently face the fifth highest state corporate income tax rate in the country. Such companies consequently tend to locate elsewhere, even when founded by Alaskan entrepreneurs.

House Bill 252 would remove one of the major obstacles preventing the development of high-growth technology companies in Alaska. The fiscal impact of the exemption created under this bill is expected to be minimal. The positive economic impacts of the bill, however, could be quite significant for the state of Alaska.

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Sand Lake, Jewel Lake and Kincaid

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February 27, 2012

Representative Kurt Olson, Chair  
House Labor and Commerce Committee  
State Capitol, Room 24  
Juneau, AK 99801-1182

Dear Representative Olson,

Representative Mia Costello has introduced House Bill 252 to encourage investment in intellectual property and high growth type businesses through a short term exemption from Alaska corporate income taxation to Qualified Small Business Corporations (QSBC's) focusing on Software, Manufacturing, Technology Innovation, and Invention.

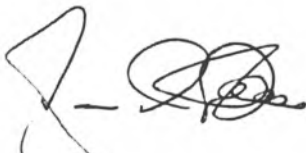
At the Fairbanks Economic Development Corporation (FEDC), we recognize the need for this type of legislation. FEDC believes that this could significantly contribute to the Alaska economy though supporting growth in high value Alaskan jobs, supporting diversification of the Alaska economy and helping to reduce emigration due to lack of economic opportunities.

Although S Corp and LLC entities are exempt from AK corporate income tax, a C Corp structure better serves the legal, accounting and capital raising needs of targeted high growth industries. In addition, investment advocates desire front-end tax breaks due to the risk of young companies. Today investors only obtain capital-gains tax breaks after many years, generally when a company is sold or goes public. Businesses often fail, yielding no capital-gain.

HB 252 introduced by Representative Mia Costello exempts QSBCs structured as C Corporations from Alaska corporate income taxation.

Currently, the Administration and Congress are proposing a permanent federal exemption of capital-gain taxes on QSBC's during the 2012 session. If this legislation passes and HB 252 passes, Alaska will be the most tax competitive state to grow these innovative companies.

Thank you,



Jim Dodson  
President & CEO  
Fairbanks Economic Development Corporation



**REPRESENTATIVE MIA COSTELLO**  
**Member, House Finance Committee**

**CSHB 252 (L&C) Sectional Summary**

*"An Act exempting certain small businesses from the corporate income tax; and providing for an effective date."*

This is a summary only. Note that this sectional analysis should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

**Section 1:** Amends AS 43.20.012 to provide an exemption from Alaska's corporate income tax for Alaska corporations that are qualified small businesses meeting the active business requirement in section 1202 of the federal Internal Revenue Code (26 U.S.C. 1202(e)).

**Section 2:** Adds new subsections (c) and (d) to AS 43.20.012.

**Subsection (c):** Covers when the determination of whether a corporation qualifies must be made. Provides that all member corporations of a parent-subsidiary controlled group are treated as being a single corporation.

**Subsection (d):** Defines the term "Alaska corporation" to be a corporation incorporated or authorized to do business in the state. Defines the terms "parent-subsidiary controlled group" and "qualified small business" to match the definitions of those terms in section 1202 of the Internal Revenue Code (26 U.S.C. 1202).

**Section 3:** Restores AS 43.20.012 to its previous language upon sunset of this Act.

**Section 4:** Provides for an effective date of July 1, 2012.

**Section 5:** Provides for a sunset date of July 1, 2023.

SESSION:  
Alaska State Capitol  
Juneau, AK 99801  
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Fax: 907-465-2040

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# ALASKA STATE LEGISLATURE

*Session:*

State Capitol, Room 412  
Juneau, AK 99801

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REPRESENTATIVE MIA COSTELLO  
District 27 - Jewel Lake, Sand Lake, & Kincaid

## MEMORANDUM

**To:** House Finance Committee members

**From:** Representative Mia Costello

**Re:** Explanation of differences between HB252a and CSHB252(L&C)

**Date:** Monday, February 27, 2012

The following explains the changes made to HB 252 (HB0252A) by CSHB252(L&C) by section.

**Section 1:** This section was changed to incorporate subsection (e) of Internal Revenue Code section 1202 (26 U.S.C. 1202). Subsection (e) contains the working asset requirement in 1202 that at least 80 percent of a qualifying business' assets be employed in the active conduct of one of more qualified trade or business. This also includes special treatment of research and start-up activities.

**Section 2:** This section was changed to remove the requirement that qualifying businesses file a report documenting their eligibility for the exemption. Removes the requirement that a qualifying business be headquartered in Alaska to avoid potential Equal Protection and Interstate Commerce Clause violations, and rearranges the placement of the "Alaska corporation" definition in the bill. Deletes definitions of terms no longer used in the statute.

**Section 3:** The effective date clause in this section was moved to section 4. The new section 3 restores AS 43.20.012 to its previous language upon sunset of this Act.

**Section 4:** This section provides for an effective date of July 1, 2012 for sections 1 and 2 of this Act.

**Section 5:** This section was added to provide for a sunset date of July 1, 2023.

“(A) the amount determined under such section 55(a)(1) determined without regard to this subsection, or

“(B) the sum of—

“(i) the amount which would be determined under such section 55(a)(1) if the alternative minimum taxable income was the excess of—

“(I) the alternative minimum taxable income (within the meaning of section 55(b)(1) of such Code) of the taxpayer, over

“(II) the qualified net capital gain of the taxpayer, and

“(ii) 20 percent of the qualified net capital gain (or, if lesser, the alternative minimum taxable income within the meaning of section 55(b)(1) of such Code).

“(2) NO CREDITS ALLOWABLE.—For purposes of section 55(c) of such Code, no credit allowable under subpart A of part IV of subchapter A of chapter 1 of such Code [section 31 et seq. of this title] (other than section 33(a) of such Code) shall be allowable against the amount described in paragraph (1)(B)(ii).

“(c) QUALIFIED NET CAPITAL GAIN.—

“(1) IN GENERAL.—For purposes of this section, the term ‘qualified net capital gain’ means the lesser of—

“(A) the net capital gain for the taxable year, or

“(B) the net capital gain for the taxable year taking into account only gain or loss from sales or exchanges occurring after June 9, 1981.

“(2) NET CAPITAL GAIN.—For purposes of this subsection, the term ‘net capital gain’ has the meaning given such term by section 1222(11) of the Internal Revenue Code of 1986.

“(d) SPECIAL RULE FOR PASS-THRU ENTITIES.—

“(1) IN GENERAL.—In applying subsections (a), (b), and (c) with respect to any pass-thru entity, the determination of when a sale or exchange has occurred shall be made at the entity level.

“(2) PASS-THRU ENTITY DEFINED.—For purposes of paragraph (1), the term ‘pass-thru entity’ means—

“(A) a regulated investment company,

“(B) a real estate investment trust,

“(C) an electing small business corporation,

“(D) a partnership,

“(E) an estate or trust, and

“(F) a common trust fund.”

**SPECIAL RULE FOR PASS-THROUGH ENTITIES**

Section 104(a)(2)(C) of Pub. L. 96-222, as amended by Pub. L. 99-514, § 2, Oct. 22, 1986, 100 Stat. 2095, provided that:

“(1) IN GENERAL.—In applying sections 1201(c)(2)(A)(ii) and 1202(c)(1)(B) of the Internal Revenue Code of 1986 [formerly I.R.C. 1954] with respect to any pass-through entity, the determination of the period for which gain or loss is properly taken into account shall be made at the entity level.

“(ii) PASS-THROUGH ENTITY DEFINED.—For purposes of clause (i), the term ‘pass-through entity’ means—

“(I) a regulated investment company,

“(II) a real estate investment trust,

“(III) an electing small business corporation,

“(IV) a partnership,

“(V) an estate or trust, and

“(VI) a common trust fund.”

**STUDY OF EFFECTS OF CHANGES IN THE TAX TREATMENT OF CAPITAL GAINS ON STIMULATING INVESTMENT AND ECONOMIC GROWTH**

Section 555 of Pub. L. 95-600 required the Secretary of the Treasury to submit to specific committees of Congress a report, not later than Sept. 30, 1981, respecting effects of changes in tax treatment of capital gains on stimulating investment and economic growth as a result of the enactment of title V of Pub. L. 95-600.

**§ 1202. Partial exclusion for gain from certain small business stock**

**(a) Exclusion**

**(1) In general**

In the case of a taxpayer other than a corporation, gross income shall not include 50 percent of any gain from the sale or exchange of qualified small business stock held for more than 5 years.

**(2) Empowerment zone businesses**

**(A) In general**

In the case of qualified small business stock acquired after the date of the enactment of this paragraph in a corporation which is a qualified business entity (as defined in section 1397C(b)) during substantially all of the taxpayer’s holding period for such stock, paragraph (1) shall be applied by substituting “60 percent” for “50 percent”.

**(B) Certain rules to apply**

Rules similar to the rules of paragraphs (5) and (7) of section 1400B(b) shall apply for purposes of this paragraph.

**(C) Gain after 2016 not qualified**

Subparagraph (A) shall not apply to gain attributable to periods after December 31, 2016.

**(D) Treatment of DC zone**

The District of Columbia Enterprise Zone shall not be treated as an empowerment zone for purposes of this paragraph.

**(3) Special rules for 2009 and certain periods in 2010**

In the case of qualified small business stock acquired after the date of the enactment of this paragraph and on or before the date of the enactment of the Creating Small Business Jobs Act of 2010—

(A) paragraph (1) shall be applied by substituting “75 percent” for “50 percent”, and  
(B) paragraph (2) shall not apply.

**(4) 100 percent exclusion for stock acquired during certain periods in 2010 and 2011**

In the case of qualified small business stock acquired after the date of the enactment of the Creating Small Business Jobs Act of 2010 and before January 1, 2012—

(A) paragraph (1) shall be applied by substituting “100 percent” for “50 percent”,

(B) paragraph (2) shall not apply, and

(C) paragraph (7) of section 57(a) shall not apply.

**(b) Per-issuer limitation on taxpayer’s eligible gain**

**(1) In general**

If the taxpayer has eligible gain for the taxable year from 1 or more dispositions of stock issued by any corporation, the aggregate amount of such gain from dispositions of stock issued by such corporation which may be taken into account under subsection (a) for the taxable year shall not exceed the greater of—

(A) \$10,000,000 reduced by the aggregate amount of eligible gain taken into account

by the taxpayer under subsection (a) for prior taxable years and attributable to dispositions of stock issued by such corporation, or

(B) 10 times the aggregate adjusted bases of qualified small business stock issued by such corporation and disposed of by the taxpayer during the taxable year.

For purposes of subparagraph (B), the adjusted basis of any stock shall be determined without regard to any addition to basis after the date on which such stock was originally issued.

**(2) Eligible gain**

For purposes of this subsection, the term "eligible gain" means any gain from the sale or exchange of qualified small business stock held for more than 5 years.

**(3) Treatment of married individuals**

**(A) Separate returns**

In the case of a separate return by a married individual, paragraph (1)(A) shall be applied by substituting "\$5,000,000" for "\$10,000,000".

**(B) Allocation of exclusion**

In the case of any joint return, the amount of gain taken into account under subsection (a) shall be allocated equally between the spouses for purposes of applying this subsection to subsequent taxable years.

**(C) Marital status**

For purposes of this subsection, marital status shall be determined under section 7703.

**(c) Qualified small business stock**

For purposes of this section—

**(1) In general**

Except as otherwise provided in this section, the term "qualified small business stock" means any stock in a C corporation which is originally issued after the date of the enactment of the Revenue Reconciliation Act of 1993, if—

(A) as of the date of issuance, such corporation is a qualified small business, and

(B) except as provided in subsections (f) and (h), such stock is acquired by the taxpayer at its original issue (directly or through an underwriter)—

(i) in exchange for money or other property (not including stock), or

(ii) as compensation for services provided to such corporation (other than services performed as an underwriter of such stock).

**(2) Active business requirement; etc.**

**(A) In general**

Stock in a corporation shall not be treated as qualified small business stock unless, during substantially all of the taxpayer's holding period for such stock, such corporation meets the active business requirements of subsection (e) and such corporation is a C corporation.

**(B) Special rule for certain small business investment companies**

**(i) Waiver of active business requirement**

Notwithstanding any provision of subsection (e), a corporation shall be treated as meeting the active business requirements of such subsection for any period during which such corporation qualifies as a specialized small business investment company.

**(ii) Specialized small business investment company**

For purposes of clause (i), the term "specialized small business investment company" means any eligible corporation (as defined in subsection (e)(4)) which is licensed to operate under section 301(d) of the Small Business Investment Act of 1958 (as in effect on May 13, 1993).

**(3) Certain purchases by corporation of its own stock**

**(A) Redemptions from taxpayer or related person**

Stock acquired by the taxpayer shall not be treated as qualified small business stock if, at any time during the 4-year period beginning on the date 2 years before the issuance of such stock, the corporation issuing such stock purchased (directly or indirectly) any of its stock from the taxpayer or from a person related (within the meaning of section 267(b) or 707(b)) to the taxpayer.

**(B) Significant redemptions**

Stock issued by a corporation shall not be treated as qualified business stock if, during the 2-year period beginning on the date 1 year before the issuance of such stock, such corporation made 1 or more purchases of its stock with an aggregate value (as of the time of the respective purchases) exceeding 5 percent of the aggregate value of all of its stock as of the beginning of such 2-year period.

**(C) Treatment of certain transactions**

If any transaction is treated under section 304(a) as a distribution in redemption of the stock of any corporation, for purposes of subparagraphs (A) and (B), such corporation shall be treated as purchasing an amount of its stock equal to the amount treated as such a distribution under section 304(a).

**(d) Qualified small business**

For purposes of this section—

**(1) In general**

The term "qualified small business" means any domestic corporation which is a C corporation if—

(A) the aggregate gross assets of such corporation (or any predecessor thereof) at all times on or after the date of the enactment of the Revenue Reconciliation Act of 1993 and before the issuance did not exceed \$50,000,000,

(B) the aggregate gross assets of such corporation immediately after the issuance (determined by taking into account amounts

received in the issuance) do not exceed \$50,000,000, and

(C) such corporation agrees to submit such reports to the Secretary and to shareholders as the Secretary may require to carry out the purposes of this section.

**(2) Aggregate gross assets**

**(A) In general**

For purposes of paragraph (1), the term "aggregate gross assets" means the amount of cash and the aggregate adjusted bases of other property held by the corporation.

**(B) Treatment of contributed property**

For purposes of subparagraph (A), the adjusted basis of any property contributed to the corporation (or other property with a basis determined in whole or in part by reference to the adjusted basis of property so contributed) shall be determined as if the basis of the property contributed to the corporation (immediately after such contribution) were equal to its fair market value as of the time of such contribution.

**(3) Aggregation rules**

**(A) In general**

All corporations which are members of the same parent-subsidiary controlled group shall be treated as 1 corporation for purposes of this subsection.

**(B) Parent-subsidiary controlled group**

For purposes of subparagraph (A), the term "parent-subsidiary controlled group" means any controlled group of corporations as defined in section 1563(a)(1), except that—

- (i) "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a)(1), and
- (ii) section 1563(a)(4) shall not apply.

**(e) Active business requirement**

**(1) In general**

For purposes of subsection (c)(2), the requirements of this subsection are met by a corporation for any period if during such period—

- (A) at least 80 percent (by value) of the assets of such corporation are used by such corporation in the active conduct of 1 or more qualified trades or businesses, and
- (B) such corporation is an eligible corporation.

**(2) Special rule for certain activities**

For purposes of paragraph (1), if, in connection with any future qualified trade or business, a corporation is engaged in—

(A) start-up activities described in section 195(c)(1)(A),

(B) activities resulting in the payment or incurring of expenditures which may be treated as research and experimental expenditures under section 174, or

(C) activities with respect to in-house research expenses described in section 41(b)(4),

assets used in such activities shall be treated as used in the active conduct of a qualified trade or business. Any determination under this paragraph shall be made without regard

to whether a corporation has any gross income from such activities at the time of the determination.

**(3) Qualified trade or business**

For purposes of this subsection, the term "qualified trade or business" means any trade or business other than—

(A) any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees,

(B) any banking, insurance, financing, leasing, investing, or similar business,

(C) any farming business (including the business of raising or harvesting trees),

(D) any business involving the production or extraction of products of a character with respect to which a deduction is allowable under section 613 or 613A, and

(E) any business of operating a hotel, motel, restaurant, or similar business.

**(4) Eligible corporation**

For purposes of this subsection, the term "eligible corporation" means any domestic corporation; except that such term shall not include—

(A) a DISC or former DISC,

(B) a corporation with respect to which an election under section 936 is in effect or which has a direct or indirect subsidiary with respect to which such an election is in effect,

(C) a regulated investment company, real estate investment trust, or REMIC, and

(D) a cooperative.

**(5) Stock in other corporations**

**(A) Look-thru in case of subsidiaries**

For purposes of this subsection, stock and debt in any subsidiary corporation shall be disregarded and the parent corporation shall be deemed to own its ratable share of the subsidiary's assets, and to conduct its ratable share of the subsidiary's activities.

**(B) Portfolio stock or securities**

A corporation shall be treated as failing to meet the requirements of paragraph (1) for any period during which more than 10 percent of the value of its assets (in excess of liabilities) consists of stock or securities in other corporations which are not subsidiaries of such corporation (other than assets described in paragraph (6)).

**(C) Subsidiary**

For purposes of this paragraph, a corporation shall be considered a subsidiary if the parent owns more than 50 percent of the combined voting power of all classes of stock entitled to vote, or more than 50 percent in value of all outstanding stock, of such corporation.

**(6) Working capital**

For purposes of paragraph (1)(A), any assets which—

(A) are held as a part of the reasonably required working capital needs of a qualified trade or business of the corporation, or

(B) are held for investment and are reasonably expected to be used within 2 years to finance research and experimentation in a qualified trade or business or increases in working capital needs of a qualified trade or business,

shall be treated as used in the active conduct of a qualified trade or business. For periods after the corporation has been in existence for at least 2 years, in no event may more than 50 percent of the assets of the corporation qualify as used in the active conduct of a qualified trade or business by reason of this paragraph.

**(7) Maximum real estate holdings**

A corporation shall not be treated as meeting the requirements of paragraph (1) for any period during which more than 10 percent of the total value of its assets consists of real property which is not used in the active conduct of a qualified trade or business. For purposes of the preceding sentence, the ownership of, dealing in, or renting of real property shall not be treated as the active conduct of a qualified trade or business.

**(8) Computer software royalties**

For purposes of paragraph (1), rights to computer software which produces active business computer software royalties (within the meaning of section 543(d)(1)) shall be treated as an asset used in the active conduct of a trade or business.

**(f) Stock acquired on conversion of other stock**

If any stock in a corporation is acquired solely through the conversion of other stock in such corporation which is qualified small business stock in the hands of the taxpayer—

(1) the stock so acquired shall be treated as qualified small business stock in the hands of the taxpayer, and

(2) the stock so acquired shall be treated as having been held during the period during which the converted stock was held.

**(g) Treatment of pass-thru entities**

**(1) In general**

If any amount included in gross income by reason of holding an interest in a pass-thru entity meets the requirements of paragraph (2)—

(A) such amount shall be treated as gain described in subsection (a), and

(B) for purposes of applying subsection (b), such amount shall be treated as gain from a disposition of stock in the corporation issuing the stock disposed of by the pass-thru entity and the taxpayer's proportionate share of the adjusted basis of the pass-thru entity in such stock shall be taken into account.

**(2) Requirements**

An amount meets the requirements of this paragraph if—

(A) such amount is attributable to gain on the sale or exchange by the pass-thru entity of stock which is qualified small business stock in the hands of such entity (deter-

mined by treating such entity as an individual) and which was held by such entity for more than 5 years, and

(B) such amount is includible in the gross income of the taxpayer by reason of the holding of an interest in such entity which was held by the taxpayer on the date on which such pass-thru entity acquired such stock and at all times thereafter before the disposition of such stock by such pass-thru entity.

**(3) Limitation based on interest originally held by taxpayer**

Paragraph (1) shall not apply to any amount to the extent such amount exceeds the amount to which paragraph (1) would have applied if such amount were determined by reference to the interest the taxpayer held in the pass-thru entity on the date the qualified small business stock was acquired.

**(4) Pass-thru entity**

For purposes of this subsection, the term "pass-thru entity" means—

(A) any partnership,

(B) any S corporation,

(C) any regulated investment company, and

(D) any common trust fund.

**(h) Certain tax-free and other transfers**

For purposes of this section—

**(1) In general**

In the case of a transfer described in paragraph (2), the transferee shall be treated as—

(A) having acquired such stock in the same manner as the transferor, and

(B) having held such stock during any continuous period immediately preceding the transfer during which it was held (or treated as held under this subsection) by the transferor.

**(2) Description of transfers**

A transfer is described in this subsection if such transfer is—

(A) by gift,

(B) at death, or

(C) from a partnership to a partner of stock with respect to which requirements similar to the requirements of subsection (g) are met at the time of the transfer (without regard to the 5-year holding period requirement).

**(3) Certain rules made applicable**

Rules similar to the rules of section 1244(d)(2) shall apply for purposes of this section.

**(4) Incorporations and reorganizations involving nonqualified stock**

**(A) In general**

In the case of a transaction described in section 351 or a reorganization described in section 368, if qualified small business stock is exchanged for other stock which would not qualify as qualified small business stock but for this subparagraph, such other stock shall be treated as qualified small business stock acquired on the date on which the exchanged stock was acquired.

**(B) Limitation**

This section shall apply to gain from the sale or exchange of stock treated as qualified small business stock by reason of subparagraph (A) only to the extent of the gain which would have been recognized at the time of the transfer described in subparagraph (A) if section 351 or 368 had not applied at such time. The preceding sentence shall not apply if the stock which is treated as qualified small business stock by reason of subparagraph (A) is issued by a corporation which (as of the time of the transfer described in subparagraph (A)) is a qualified small business.

**(C) Successive application**

For purposes of this paragraph, stock treated as qualified small business stock under subparagraph (A) shall be so treated for subsequent transactions or reorganizations, except that the limitation of subparagraph (B) shall be applied as of the time of the first transfer to which such limitation applied (determined after the application of the second sentence of subparagraph (B)).

**(D) Control test**

In the case of a transaction described in section 351, this paragraph shall apply only if, immediately after the transaction, the corporation issuing the stock owns directly or indirectly stock representing control (within the meaning of section 368(c)) of the corporation whose stock was exchanged.

**(i) Basis rules**

For purposes of this section—

**(1) Stock exchanged for property**

In the case where the taxpayer transfers property (other than money or stock) to a corporation in exchange for stock in such corporation—

(A) such stock shall be treated as having been acquired by the taxpayer on the date of such exchange, and

(B) the basis of such stock in the hands of the taxpayer shall in no event be less than the fair market value of the property exchanged.

**(2) Treatment of contributions to capital**

If the adjusted basis of any qualified small business stock is adjusted by reason of any contribution to capital after the date on which such stock was originally issued, in determining the amount of the adjustment by reason of such contribution, the basis of the contributed property shall in no event be treated as less than its fair market value on the date of the contribution.

**(j) Treatment of certain short positions****(1) In general**

If the taxpayer has an offsetting short position with respect to any qualified small business stock, subsection (a) shall not apply to any gain from the sale or exchange of such stock unless—

(A) such stock was held by the taxpayer for more than 5 years as of the first day on which there was such a short position, and

(B) the taxpayer elects to recognize gain as if such stock were sold on such first day for its fair market value.

**(2) Offsetting short position**

For purposes of paragraph (1), the taxpayer shall be treated as having an offsetting short position with respect to any qualified small business stock if—

(A) the taxpayer has made a short sale of substantially identical property,

(B) the taxpayer has acquired an option to sell substantially identical property at a fixed price, or

(C) to the extent provided in regulations, the taxpayer has entered into any other transaction which substantially reduces the risk of loss from holding such qualified small business stock.

For purposes of the preceding sentence, any reference to the taxpayer shall be treated as including a reference to any person who is related (within the meaning of section 267(b) or 707(b)) to the taxpayer.

**(k) Regulations**

The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this section, including regulations to prevent the avoidance of the purposes of this section through split-ups, shell corporations, partnerships, or otherwise.

(Added Pub. L. 103-66, title XIII, §13113(a), Aug. 10, 1993, 107 Stat. 422; amended Pub. L. 104-188, title I, §1621(b)(7), Aug. 20, 1996, 110 Stat. 1867; Pub. L. 106-554, §1(a)(7) [title I, §117(a), (b)(2)], Dec. 21, 2000, 114 Stat. 2763, 2763A-604; Pub. L. 108-357, title VIII, §835(b)(9), Oct. 22, 2004, 118 Stat. 1594; Pub. L. 111-5, div. B, title I, §1241(a), Feb. 17, 2009, 123 Stat. 342; Pub. L. 111-240, title II, §2011(a), (b), Sept. 27, 2010, 124 Stat. 2554; Pub. L. 111-312, title VII, §§753(b), 760(a), Dec. 17, 2010, 124 Stat. 3321, 3323.)

**REFERENCES IN TEXT**

The date of the enactment of this paragraph, referred to in subsec. (a)(2)(A), is the date of enactment of Pub. L. 106-554, which was approved Dec. 21, 2000.

The date of the enactment of this paragraph, referred to in subsec. (a)(3), is the date of enactment of Pub. L. 111-5, which was approved Feb. 17, 2009.

The date of the enactment of the Creating Small Business Jobs Act of 2010, referred to in subsec. (a)(3), (4), is the date of enactment of Pub. L. 111-240, which was approved Sept. 27, 2010.

The date of the enactment of the Revenue Reconciliation Act of 1993, referred to in subsecs. (c)(1) and (d)(1)(A), is the date of enactment of Pub. L. 103-66, which was approved Aug. 10, 1993.

Section 301(d) of the Small Business Investment Act of 1958, referred to in subsec. (c)(2)(B)(ii), was classified to section 681(d) of Title 15, Commerce and Trade, prior to repeal by Pub. L. 104-208, div. D, title II, §208(b)(3)(A), Sept. 30, 1996, 110 Stat. 3009-742.

**PRIOR PROVISIONS**

A prior section 1202, acts Aug. 16, 1954, ch. 736, 68A Stat. 320; Oct. 4, 1976, Pub. L. 94-455, title XIX, §1901(b)(33)(M), 90 Stat. 1802; Nov. 6, 1978, Pub. L. 95-600, title IV, §402(a), 92 Stat. 2867; Apr. 1, 1980, Pub. L. 96-222, title I, §104(a)(2)(A), 94 Stat. 214, authorized deduction for capital gains, prior to repeal by Pub. L. 99-514, title III, §301(a), (c), Oct. 22, 1986, 100 Stat. 2216, 2218, applicable to taxable years beginning after Dec. 31, 1986.

AMENDMENTS

2010—Subsec. (a)(2)(C). Pub. L. 111-312, §753(b), substituted “2016” for “2014” in heading and “December 31, 2016” for “December 31, 2014” in text.

Subsec. (a)(3). Pub. L. 111-240, §2011(b), inserted “certain periods in” before “2010” in heading and substituted “on or before the date of the enactment of the Creating Small Business Jobs Act of 2010” for “before January 1, 2011” in text.

Subsec. (a)(4). Pub. L. 111-312, §760(a), inserted “and 2011” after “2010” in heading and substituted “January 1, 2012” for “January 1, 2011” in introductory provisions.

Pub. L. 111-240, §2011(a), added par. (4).

2009—Subsec. (a)(3). Pub. L. 111-5 added par. (3).

2004—Subsec. (e)(4)(C). Pub. L. 108-357 substituted “or REMIC” for “REMIC, or FASIT”.

2000—Pub. L. 106-554, §1(a)(7) [title I, §117(b)(2)], substituted “Partial” for “50-percent” in section catchline.

Subsec. (a). Pub. L. 106-554, §1(a)(7) [title I, §117(a)], amended heading and text of subsec. (a) generally. Prior to amendment, text read as follows: “In the case of a taxpayer other than a corporation, gross income shall not include 50 percent of any gain from the sale or exchange of qualified small business stock held for more than 5 years.”

1996—Subsec. (e)(4)(C). Pub. L. 104-188 substituted “REMIC, or FASIT” for “or REMIC”.

EFFECTIVE DATE OF 2010 AMENDMENT

Pub. L. 111-312, title VII, §753(d), Dec. 17, 2010, 124 Stat. 3321, provided that: “The amendments made by this section [amending this section and section 1391 of this title] shall apply to periods after December 31, 2009.”

Pub. L. 111-312, title VII, §760(b), Dec. 17, 2010, 124 Stat. 3323, provided that: “The amendments made by this section [amending this section] shall apply to stock acquired after December 31, 2010.”

Pub. L. 111-240, title II, §2011(c), Sept. 27, 2010, 124 Stat. 2554, provided that: “The amendments made by this section [amending this section] shall apply to stock acquired after the date of the enactment of this Act [Sept. 27, 2010].”

EFFECTIVE DATE OF 2009 AMENDMENT

Pub. L. 111-5, div. B, title I, §1241(b), Feb. 17, 2009, 123 Stat. 342, provided that: “The amendment made by this section [amending this section] shall apply to stock acquired after the date of the enactment of this Act [Feb. 17, 2009].”

EFFECTIVE DATE OF 2004 AMENDMENT

Amendment by Pub. L. 108-357 effective Jan. 1, 2005, with exception for any FASIT in existence on Oct. 22, 2004, to the extent that regular interests issued by the FASIT before such date continue to remain outstanding in accordance with the original terms of issuance, see section 835(c) of Pub. L. 108-357, set out as a note under section 56 of this title.

EFFECTIVE DATE OF 2000 AMENDMENT

Amendment by Pub. L. 106-554 applicable to stock acquired after Dec. 21, 2000, see section 1(a)(7) [title I, §117(c)] of Pub. L. 106-554, set out as a note under section 1 of this title.

EFFECTIVE DATE OF 1996 AMENDMENT

Amendment by Pub. L. 104-188 effective Sept. 1, 1997, see section 1621(d) of Pub. L. 104-188, set out as a note under section 26 of this title.

EFFECTIVE DATE

Section applicable to stock issued after Aug. 10, 1993, see section 13113(e) of Pub. L. 103-66, set out as an Effective Date of 1993 Amendment note under section 53 of this title.

PART II—TREATMENT OF CAPITAL LOSSES

- Sec. 1211. Limitation on capital losses.
- 1212. Capital loss carrybacks and carryovers.

AMENDMENTS

1969—Pub. L. 91-172, title V, §512(f)(2), Dec. 30, 1969, 83 Stat. 641, substituted “carrybacks and carryovers” for “carryover” in item 1212.

§ 1211. Limitation on capital losses

(a) Corporations

In the case of a corporation, losses from sales or exchanges of capital assets shall be allowed only to the extent of gains from such sales or exchanges.

(b) Other taxpayers

In the case of a taxpayer other than a corporation, losses from sales or exchanges of capital assets shall be allowed only to the extent of the gains from such sales or exchanges, plus (if such losses exceed such gains) the lower of—

- (1) \$3,000 (\$1,500 in the case of a married individual filing a separate return), or
- (2) the excess of such losses over such gains.

(Aug. 16, 1954, ch. 736, 68A Stat. 321; Pub. L. 91-172, title V, §513(a), Dec. 30, 1969, 83 Stat. 642; Pub. L. 94-455, title V, §501(b)(6), title XIV, §1401(a), (b), Oct. 4, 1976, 90 Stat. 1559, 1731; Pub. L. 95-30, title I, §102(b)(14), May 23, 1977, 91 Stat. 138; Pub. L. 99-514, title III, §301(b)(10), Oct. 22, 1986, 100 Stat. 2217.)

AMENDMENTS

1986—Subsec. (b). Pub. L. 99-514 amended subsec. (b) generally, substituting present provisions for provisions which had declared in: par. (1), general rule for limitation on capital losses for taxpayer other than corporation; in par. (2), meaning of term “applicable amount”; and in par. (3), rule relating to computation of taxable income.

1977—Subsec. (b)(1)(A). Pub. L. 95-30 inserted “reduced (but not below zero) by the zero bracket amount” after “taxable year”.

1976—Subsec. (b)(1)(B). Pub. L. 94-455, §1401(a), substituted “the applicable amount” for “\$1,000”.

Subsec. (b)(2). Pub. L. 94-455, §1401(b), substituted provision relating to “applicable amount” for prior provision limiting amount of capital losses for married individuals and reading “In the case of a husband or wife who files a separate return, the amount specified in paragraph (1)(B) shall be \$500 in lieu of \$1,000.”

Subsec. (b)(3). Pub. L. 94-455, §501(b)(6), struck out last sentence “If the taxpayer elects to pay the optional tax imposed by section 3, ‘taxable income’ as used in this subsection shall read as ‘adjusted gross income.’”

1969—Subsec. (b). Pub. L. 91-172 provided for only 50 percent of an individual’s long-term capital losses to be offset against his ordinary income up to the \$1,000 limit although short-term capital losses continue to be fully deductible within the \$1,000 limit and the deduction of capital losses against ordinary income for married persons filing separate returns to be limited to \$500 for each spouse rather than the \$1,000 formerly allowed.

EFFECTIVE DATE OF 1986 AMENDMENT

Amendment by Pub. L. 99-514 applicable to taxable years beginning after Dec. 31, 1986, see section 301(c) of Pub. L. 99-514, set out as a note under section 62 of this title.

EFFECTIVE DATE OF 1977 AMENDMENT

Amendment by Pub. L. 95-30 applicable to taxable years beginning after Dec. 31, 1976, see section 106(a) of

## State Positions

\*Positions marked with an asterisk are "Top Positions" (previously printed) for 2012

### Economic Development

#### **1. \*\*Reform Oil Tax Policy to Encourage New Production**

The Alaska State Chamber of Commerce supports the Governor's efforts to reach at least a million barrels per day of oil production by 2022 by establishing competitive investment opportunities and regulatory taxation policies that will facilitate new oil exploration and production (including from existing fields, new discoveries, viscous and heavy oil) to reverse the dramatic, continuing oil production decline. The Alaska Chamber encourages the Alaska State Legislature to adopt meaningful reform during the 2012 Legislative Session to ensure a stable economy and jobs for Alaskans.

#### **2. Support High Growth Tech Industries**

The Alaska State Chamber of Commerce encourages the State of Alaska to take advantage of the Small Business Jobs Act of 2010 to provide incentives to Alaska businesses to incorporate as C corporations, making it easier to attract investment to Alaska. Many States are taking advantage of a provision in the Small Business Jobs Act of 2010 to provide a limited exemption for businesses that fall under the Qualified Small Business definition under section 1202 of the Internal Revenue Code. The Alaska Chamber supports appropriate incentives, through legislation, which will aide the diversification of Alaska and help secure a sustainable economy far into the future.

#### **3. Support Tideland Flat Lease Fees**

The Alaska State Chamber of Commerce supports sound and predictable management of Alaska's land, including tidelands. The Alaska Chamber supports amending Alaska's Title 38 to establish a flat fee in the amount of \$100 per lease, per year during periods of two or more years of dormancy when the leaseholder is the upland landowner. Use, access and the ability to cross the state of Alaska's tidelands is critical to access saltwater for marine transportation to receive supplies or transport goods and products to markets. Tideland leaseholders make significant investments in obtaining the leases, associated permits, and infrastructure development on State lands or on neighbor privately owned uplands.

Operations over time may lapse into periods of prolonged dormancy either by design, as in the case of forest operations, or due to business conditions. Most leaseholders, especially upland landowners, are reluctant to let go of the lease due to their investment and uncertainty of being able to get a lease in the future when operations resume. Consequently, in order to protect the lease, leaseholders must pay the annual fee during these periods of dormancy, even in the absence of any business operations to generate revenue for that lease. This can be a significant financial burden on businesses

holding these leases and can be a disincentive for long-term business planning and investment.

#### **4. Support Film and Television Production**

The Alaska State Chamber of Commerce supports film and television production incentives that have a profit sharing feature such that successful productions return some of their credit back to the state.

#### **5. Support Shellfish Mariculture Industry**

The Alaska State Chamber of Commerce supports diversification of Alaska's economy, including use of appropriate incentives to spur investment in Alaska. Shellfish farming has been identified as one of the top economic development opportunities in efforts to rebuild the economy of the Tongass National Forest of Southeast Alaska. Overcoming high front-end capital costs and a long lag in revenues has been identified as two of the bigger impediments in developing more shellfish farms in Alaska.

The Alaska Chamber believes Alaska's fledgling shellfish mariculture industry needs strong support from the state of Alaska before it can be considered a viable industry. Because the state of Alaska owns all the tidelands and waterways, the nascent Alaska shellfish mariculture industry cannot realize its full potential without strategic support from the State of Alaska including establishment of a mariculture revolving loan fund, deferred tidelands lease fees, and establishment of a sustainable DEC testing program.

**ALASKA STATE CHAMBER OF COMMERCE**

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[http://www.alaskachamber.com/images/stories/pdfs/stateecond  
ev.pdf](http://www.alaskachamber.com/images/stories/pdfs/stateecond<br/>ev.pdf)

Alaska State Chamber of Commerce 2012 Legislative  
Positions

This paper can be accessed at the link above.

A MARKET-BASED APPROACH  
FOR CROSSING THE VALLEY OF DEATH

The Benefits of a Capital Gains Exemption  
for Investments in Startups

January 2012

Ewing Marion

**KAUFFMAN**  
Foundation

**A MARKET-BASED APPROACH  
FOR CROSSING THE VALLEY OF DEATH**

**The Benefits of a Capital Gains Exemption for Investments in Startups**

**January 2012**

**Robert E. Litan and Alicia M. Robb<sup>1</sup>**

Ewing Marion  
**KAUFFMAN**  
Foundation

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<sup>1</sup> Vice President, Research and Policy, and Senior Research Fellow at the Kauffman Foundation, respectively. We thank Bill Gale and Jane Gravelle for excellent comments on an earlier version and Jared Konczal for outstanding research assistance.

## Introduction

For new companies, substantial third-party capital often is needed to get off the ground or to move from concept to prototype. It can be a challenge to obtain sufficient equity capital to make the transition, or, as many have called it, to cross “the valley of death.” Some believe this leap can be made only with government funding.

Yet, in the wake of the failure of Solyndra, a solar panel manufacturer backed by more than \$500 million in federal guarantees that nonetheless went bankrupt, and with pressing budget challenges confronting the government at all levels, it is unlikely that direct government funding is going to be the answer to the valley of death problem, whether it be in the form of equity, loans, or loan guarantees. One partial solution may be more activity by stand-alone corporate venture funds. Yet, while the macro environment remains uncertain, these cash-rich investors are likely to continue to be risk-averse for some time. And while angel investors tend to be more willing to make seed or initial financing investments, they, too, have shied away from taking on too much risk in the current economic climate.

But what if government policy could be changed to significantly reduce the risk and/or enhance the after-tax reward from such long-term investments? One could make the case that this could considerably shorten or perhaps even eliminate the valley of death for at least some capital-intensive startups. A side benefit is that a *startup-neutral* solution also could help other young companies that need less but still not insignificant amounts of outside capital to propel their companies into the growth phase.

In fact, there is an idea—already in place in some form from 2009 through the end of 2011—that could accomplish these objectives: an exemption on capital gains on investments in startups held for at least five years. As of yet, this exemption has not been extended, although it has been proposed for extension by the Administration, and is embodied in the Startup Act legislation introduced by Senators Moran and Warner and in a Small Business Tax Extenders Bill backed by Senators Snowe and Landrieu.

As this short note will show, this exemption boosts the after-tax returns on such investments in startups and should induce substantial levels of new investments in startup firms. We estimate that this exemption would increase such important risky investments by conservatively 50 percent more than the \$0.5 billion annual and \$5 billion ten-year revenue loss from the provision.

An increase in equity investments of this magnitude—\$750 million annually and \$7.5 billion over a ten-year period—is likely to be concentrated in new companies with high growth potential. This is important because, while only a small fraction of startups subsequently experience rapid growth, it is these companies that

account for a disproportionate share of net new jobs generated by startups in general, which, until the recession, accounted for virtually *all* net new jobs created in the U.S. economy since the late 1970s.

### **The Capital Gains Exclusion for Startup Investments: A Brief History**

Until 2009, non-corporate taxpayers were permitted to exclude 50 percent of the gain from the sale of stock in startups (qualified small business stock or QSBS) if the investments were held for five years. The Recovery Act enacted in 2009 raised the exclusion, as of February 17, 2009, to 75 percent through December 31, 2010. To qualify, an investment had to have been made in a C corporation whose gross assets did not exceed \$50 million. The Small Business Jobs Act (SBJA) again raised the exclusion, this time to 100 percent, through the end of December 2011.<sup>2</sup> Beginning in 2012, it appears that startup investments no longer receive any special capital gains treatment.

Throughout the period considered in this essay, the tax rate on the gains from the sale of any capital asset held longer than twelve months has been 15 percent for individual taxpayers subject to marginal income tax rates of 25 percent or more. Under Section 1202 of the Internal Revenue Code, 50 percent of the gain on the sale of QSBS was excluded pre-2009, up to a limit (roughly \$10 million). Beyond the threshold, the gain on QSBS is taxed at a 28 percent rate, which, taking account of the 50 percent exclusion, implied a marginal tax rate of 14 percent. The 100 percent exclusion that expired at the end of 2011 reduced that marginal tax rate to zero.

### **Costs and Benefits of the Capital Gains Exclusion for Startup Investments**

The Administration has proposed making permanent the 100 percent exclusion for investments in C corporations held for at least five years (with the same exclusions as under earlier law). Under standard "static" scoring assumptions that take no account of any revenue on wage or capital income generated by any additional growth, the Joint Tax Committee scored this proposal at generating revenue losses of \$5.1 billion over ten years, or approximately \$0.5 billion annually.<sup>3</sup> This estimate is measured against the preexisting 50 percent exclusion.

So far, there has been limited information relating to the benefits of the proposal that includes special startup provisions. The *Economic Report of the President, 2011* (page 151) indicated only that the increase in the percentage exclusion under the SBJA would benefit one million firms (apparently not counting the firms

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<sup>2</sup> Some types of corporations were excluded from the tax benefit: investments in health care, law, engineering, architecture, hospitality, farming, insurance, finance and mineral extraction. In effect, the tax benefit appears to be aimed primarily at technology and life sciences companies.

<sup>3</sup> See [www.jct.gov/publications.html?func=startdown&id=3773](http://www.jct.gov/publications.html?func=startdown&id=3773).

ineligible for the capital gains tax benefit), but didn't provide estimates of the expected increase in investments in startups or jobs created.

We advance here a plausible, yet conservative estimate of the additional investments in startups from a permanent 100 percent exclusion from capital gains taxes for investments held at least five years, compared with the prior 50 percent exclusion. Although for reasons spelled out below we are unable to supply a direct estimate of the jobs created by such a provision, we do provide some indirect evidence about the important job-creating impact of encouraging additional startup activity, especially among companies requiring sizeable initial equity investments that are likely to be high-growth.

*Estimated Additional Investment:*

We begin by estimating a baseline amount of equity capital invested in startups. Equity can be provided from three sources, in ascending order of likelihood: formal venture capital, "angel capital" (investments by wealthy individuals or groups of such individuals, or friends and family), or by the founders themselves.

According to the National Venture Capital Association, venture capital firms provided \$1.8 billion in "seed funding"—investments in startup companies that broadly should qualify for any capital gains preference—in 2010, the latest year for which such data exist.<sup>4</sup> The best estimate for seed investment by angel capitalists in that year was \$6.2 billion,<sup>5</sup> yielding an \$8 billion total of third-party seed capital investment.

It is reasonable to assume that all or virtually all of this \$8 billion in seed funding was invested in traditional C corporations, the corporation form most suitable for a company to later go public (and provide an "exit" for the third-party investors), and also the only organizational form eligible for the capital gains preference. Some additional C corporation seed investments surely were made by entrepreneurs themselves, although most sole proprietors are likely to use other organizational forms (limited liability corporations, subchapter S corporations, or unincorporated entities). We conservatively assume that entrepreneur seed investments added another \$2 billion in 2010, bringing the total baseline investment eligible for the capital gains preference to \$10 billion.<sup>6</sup> Admittedly, this

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<sup>4</sup> National Venture Capital Association, *Yearbook 2011*, Figure 6, p. 12.

<sup>5</sup> Center for Venture Research, "The Angel Investor Market in 2010: A Market on the Rebound," April 12, 2011, available at [www.unh.edu/news/docs/2010angelanalysis.pdf](http://www.unh.edu/news/docs/2010angelanalysis.pdf).

<sup>6</sup> The Kauffman Firm Survey (KFS) is the only available comprehensive longitudinal database of new U.S. firms. The KFS follows 5,000 randomly selected firms that were launched in 2004, a year that, coincidentally, was about the mid-point of the last economic expansion. According to the KFS, the average reported owner's equity in firms started that year was about \$32,000, which, adjusted for inflation to 2010, comes to about \$35,000. A reasonable approximation of the amount of owner-supplied equity for firms launched in 2010 could be either higher or lower than this figure (we wouldn't know the exact figure without replicating the KFS methodology for 2010, which is not economically feasible for purposes of this short note). Multiplying the \$35,000 by the

figure takes no special account of the industry exclusions built into IRC 1202,<sup>7</sup> but we do not believe this is a serious problem because these industries generally are not the kinds that attract significant third-party investment, especially by venture capital firms and angel investors.

To estimate how much *additional equity investment* might be generated by a permanent capital gains exemption for such activity, we need to estimate both the additional after-tax return made possible by that exemption and the responsiveness (technically, the “elasticity”) of investment to that additional return.

A reasonable assumption in the current interest-rate environment is that the baseline real pre-tax return on privately held investments in startups is 10 percent: 5 percent above the expected 5 percent annual real return in the stock market (3 percent for real GDP growth and another 2 percent for dividend yield). This implies that \$100 invested at a 10 percent pre-tax return will be worth \$161 five years from now (multiplying the 100 by 1.1, and then multiplying that result by 1.1, and so on over five years). This is also the amount an investor would have if the capital gains tax were zero.

Compare this to the after-tax return if the gains were taxed at 14 percent. This level of tax would reduce the net return to \$152, implying an annual after-tax return of 8.7 percent. In short, the presence of the tax reduces the return by approximately 1.3 percentage points. If 8.7 percent is thus the base pre-tax return, a 1.3 percentage point increase in that number represents a 15 percent increase in the after-tax rate of return ( $1.3/8.7$ ). This calculation assumes, of course, that startup investments eligible for the exemption all are sold after five years (a longer holding period admittedly would imply a smaller increase in the annualized after-tax return, a subject which we address below).

What, then, is the responsiveness, or elasticity, of investment to changes in the rate of return? Based on conversations with other economists experienced in such matters, we believe a conservative elasticity figure is 0.5, implying that a 15 percent increase in the real return of startup investment should conservatively lead to a 7.5 percent increase in the volume of investment.<sup>8</sup>

On a baseline level of \$10 billion investment in startups, this percentage increase translates *into \$0.75 billion in additional investment in new companies per year, or \$7.5 billion over a ten-year period*, which would be generated by exempting such investments from capital gains taxes. This increase compares to an

---

roughly 500,000 firms started in that year yields an estimated \$17.5 billion in equity supplied by all owners. Our conservative estimate of \$2 billion channeled to C corporations in that year is thus only a fraction of the overall estimate of seed capital supplied by entrepreneurs in 2010.

<sup>7</sup> See the list in footnote 2.

<sup>8</sup> This elasticity is the lower bound of estimates from the responsiveness of physical investment to the cost of capital, which we apply here to the *return* on capital. For citations see the Appendix.

estimated revenue loss to the Treasury under static scoring conventions of \$0.5 billion per year, or \$5 billion over a ten-year scoring window. In other words, the estimated increase in risk capital due to the 100 percent capital gains exclusion is roughly 50 percent greater than the estimated static revenue loss to the Treasury.

There are two forces working in opposing directions that could move this estimate either higher or lower. On the one hand, because the baseline level of seed investment, being as it is based on 2010 figures, is likely to be conservative, the incremental effect of the exemption should be greater over time. As the economy continues to pick up, even at a slow rate, seed investors are likely to become less risk averse and increase their investments in risky investments, including startups. A capital gains exemption would only accelerate this process and amplify the amount of capital going into high-growth startups. A higher baseline of seed investment implies a higher incremental effect of the exemption.

On the other hand, we also recognize that our assumption of a five-year holding period of investments in startups is aggressive. It is likely that the average is above that, perhaps as long as ten years, which would cut down the estimated increase in the rate of return due to the exemption, and therefore reduce the additional investment expected.

It is our judgment that these two different effects are likely roughly to cancel out over time, leaving our point estimate of the increase due to the permanent exemption more or less intact.

#### *Additional Jobs*

Ideally, it would be nice if we also could translate the estimated increase in seed investment into an estimate for additional jobs created, but this is not straightforward, for at least two reasons.

First, some unknowable portion of that additional \$0.75 billion per year would come from a shift out of more conservative investments into riskier seed investment. Those conservative investments, whether government bonds or securities (bonds or equity) of publicly traded companies, also fund job creation. We have no good way of *directly* estimating the incremental jobs that additional investments in startups would generate.

Second, in any event, it is not clear how to count the jobs created by such investments. What numbers of jobs are directly created by the investment itself, and what numbers are due to the success of the entrepreneurs thereafter? This is not an easy line to draw.

Despite these difficulties of making *direct* job estimates, the *indirect* evidence shows that the amount of job creation from additional investment in startups is substantial. As a number of studies have documented, young companies (those five years old or younger, and even firms in their first year) accounted for virtually all net job growth from the late 1970s or early 1980s until the onset of the Great Recession.<sup>9</sup> Of these young companies, however, just 1 percent account for 10 percent of the overall net job growth,<sup>10</sup> indicating how important high-growth firms are to the job-creation process. Because firms accessing these sources of third-party capital are more likely than others to exhibit high growth, measures that would channel substantially more investment into startups should lead to the launch of more high-growth firms and boost the odds of success and thus the growth of companies that already have been started.

### **Conclusion**

Without making any bold claim of a “free lunch,” there is nonetheless a compelling case to be made that permanently exempting investments in startups from any capital gains taxes for five years would come reasonably close. It would conservatively boost annual equity investment in startups by 50 percent more than the annual revenue loss to the federal Treasury. Such investments also likely would be disproportionately channeled to potential high-growth firms, which also punch well above their weight in terms of job creation potential as compared to other startups. Given the need for additional jobs in this anemic recovery, the case for inducing additional startup investment through the capital gains tax exemption is strong.

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<sup>9</sup> See, e.g., Dane Stangler and Robert E. Litan, “Where Will The Jobs Come From?,” Kauffman Foundation Research Series on Firm Formation and Economic Growth, November 2009, [www.kauffman.org/uploadedFiles/where\\_will\\_the\\_jobs\\_come\\_from.pdf](http://www.kauffman.org/uploadedFiles/where_will_the_jobs_come_from.pdf).

<sup>10</sup> See Dane Stangler “High Growth Firms and the Future of the American Economy,” March 9, 2010, Kauffman Foundation Research Series on Firm Formation and Economic Growth available at <http://www.kauffman.org/newsroom/high-growth-firms-account-for-disproportionate-share-of-job-creation-according-to-kauffman-foundation-study.aspx>.

## Appendix

### Studies of Elasticity of Investment Response to Changes in the Rate of Return

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February 2, 2012

The Honorable Mia Costello  
Alaska House of Representatives  
Capitol Room 412  
Juneau, AK 99801

Re: Support of House Bill 252

Dear Representative Costello,

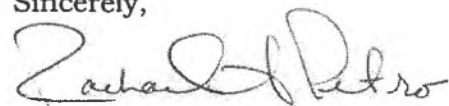
The Alaska State Chamber of Commerce (Alaska Chamber) is an organization dedicated to improving the business climate in Alaska. The Alaska Chamber represents hundreds of statewide businesses from Ketchikan to Barrow that share a common goal: to make Alaska a viable and competitive place to do business. Today, I am writing in support of House Bill (HB) 252.

Last fall, Alaska Chamber members adopted twenty-six positions they believe will positively impact the business environment in Alaska. One of the positions is: "Support High Growth Tech Industries." The Alaska Chamber encourages the State of Alaska to take advantage of the Small Business Jobs Act of 2010 to provide incentives to Alaska businesses to incorporate as C corporations, making it easier to attract investment to Alaska. Currently, Alaska faces the fifth highest state corporate income tax rate in the country. Many States are taking advantage of a provision in the Small Business Jobs Act of 2010 to provide a limited exemption for businesses that fall under the Qualified Small Business definition under section 1202 of the Internal Revenue Code. The Alaska Chamber supports appropriate incentives, through legislation, which will aide the diversification of Alaska and help secure a sustainable economy far into the future.

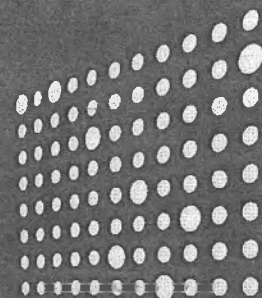
HB 252 seeks to encourage the development of high-growth technology and research companies in Alaska by utilizing the provision in the Small Business Jobs Act of 2010, referenced above. The fiscal impact of the exemption created under HB 252 is expected to be minimal.

The Alaska Chamber looks forward to continued support and eventual passage of HB 252.

Sincerely,



Rachael A. Petro  
President/CEO



ALASKA STATE  
CHAMBER  
OF COMMERCE

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217 2nd Street  
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Juneau  
Alaska 99801  
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[www.alaskachamber.com](http://www.alaskachamber.com)



The Entrepreneurs and Mentors Network Inc.  
*Mentors empowering Entrepreneurs*

**Colin V. Palmer**  
Executive Director

(907)-862-5160  
colinvpalmer@yahoo.com

**Allan R Johnston**  
Chief Encouragement Officer

(907) 727-1187  
allanrjohnston@yahoo.com

February 10, 2012

Re: House Bill 252 Qualifying Small Business Corporation Tax Exemption

Representative Kurt Olson, Chair  
House Labor & Commerce Committee  
State Capitol, Room 24  
Juneau, Alaska 99801-1182

Dear Representative Olson,

Please accept this letter of support for HB 252. I believe that Alaskans need to be more proactive in implementing programs and legislation to nurture innovation and entrepreneurship in Alaska. We are the only state that doesn't have an organized Angel Investor network. We are one of only a few states that doesn't have a Small Business Investment Corporation, a business incubator or a business accelerator.

If the Milken Risk Capital and Entrepreneurial Infrastructure Composite Index were considered a reasonable proxy of our Aspiration Index, which I believe that it does, then Alaska is near the bottom in entrepreneurial capacity nationwide. HB 252 gives us a tool to help address our unacceptable position and could potentially help us attract talent and new international business opportunities that currently aren't viable. This bill has the potential of giving Alaska some positive national and international attention that money alone could not buy. I am proud to support this visionary legislation and I am confident that many new high quality jobs and opportunities are going to be created in Alaska that would not exist otherwise.

Sincerely,

Allan R. Johnston  
Chief Encouragement Officer  
The Entrepreneurs and Mentors Network Inc



The Entrepreneurs and Mentors Network Inc.  
Mentors empowering Entrepreneurs

**Colin V. Palmer**  
Executive Director

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**Allan R Johnston**  
Chief Encouragement Officer

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allanjohnston@yahoo.com

State Technology and Science Index

Enduring Lessons for the Intangible Economy  
June 2008

**Risk Capital and Entrepreneurial Infrastructure Composite Index**

This measures the stock of capable entrepreneurs and risk capital available to support the conversion of research into commercially viable technology products and services. Eleven indicators are included in this Composite Index, listed at the bottom of this page. Click on an indicator to see further data comparisons at the individual indicator level.

Select a Composite			Select a State					
State	2008 Rank	Average Score	State	2004 Rank	Average Score	State	2002 Rank	Average Score
Nebraska	44	38.60	Alabama	44	30.22	Alaska	44	29.33
Montana	45	38.57	Iowa	45	28.67	Kentucky	45	27.56
North Dakota	46	36.25	Montana	46	27.56	Wyoming	46	27.33
Iowa	47	34.22	Alaska	47	24.67	Arkansas	47	18.44
West Virginia	48	32.18	Kentucky	48	23.78	West Virginia	48	18.00
Mississippi	49	30.40	Mississippi	49	22.22	South Dakota	49	15.33
Alaska	50	21.71	North Dakota	50	16.22	North Dakota	50	9.78

Average Annual SBIC Funds Disbursed per \$1,000 of GSP

Increase in Number of Companies Receiving VC Investment

IPO Proceeds as Percent of GSP

Number of Business Incubators per 10,000 Business Establishments

Number of Business Starts per 100,000 People

Number of Companies Receiving VC Investment per 10,000 Business Establishments

Patents Issued per 100,000 People

Total Venture Capital Investment Growth

VC Investment in Clean Technology per \$1,000 of GSP

VC Investment in Nanotechnology per \$1,000 of GSP

Venture Capital Investment as Percent of GSP

<http://www.milkeninstitute.org/tech/tech.taf?sub=rcic>

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Reply Reply All Forward

## House Bill 252

Andrew Mitton [andrew@vellumllc.com]

To: Rep. Mia Costello

Categories:  Bill

Friday, February 17, 2012 2:24 PM

Representative Costello: I'm writing to support House Bill 252. I'm a small business attorney and help startups. The online world is disrupting industry after industry. Alaska's businesses can either be disrupted or we can create an environment to foster the disruptors. There's really no in between.

I hope that you will support this bill.

**Andrew C. Mitton | Vellum LLC**

Alaska's Small Business Attorney

405 W. 36th Ave. Suite 200, Anchorage, Alaska 99503  
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Reply Reply All Forward

## Support ofr HB 252

Brent Fisher [baskfish@ymail.com]

To: Rep. Mia Costello

Categories:  Bill

Friday, February 17, 2012 10:29 AM

Dear Mia,

Thank you for sponsoring HB 252. I am in full support of this bill. I am telling everyone I know that this bill is important to getting more hi-tech and fast growth small companies to headquarter in Alaska. The current C-Corp taxation schedule is excessive and preventing high growth businesses from establishing themselves in Aalska. We need this bill to further diversify the Alaskan economy. Thank you.

Brent A. Fisher, MBA, FACHE, FACMPE  
President  
Board Advisor Firm  
907-250-8554  
bafisher@boardadvisorfirm.com  
<http://www.linkedin.com/in/brentafisher>

# ALASKA VENTURE PARTNERS

Ph. 907.830.3000  
john@alaskaventurepartners.com

February 15, 2012

Re: House Bill 252 Qualifying Small Business Corporation Tax Exemption

Representative Kurt Olson, Chair  
House Labor & Commerce Committee  
State Capitol, Room 24  
Juneau, Alaska 99801-1182

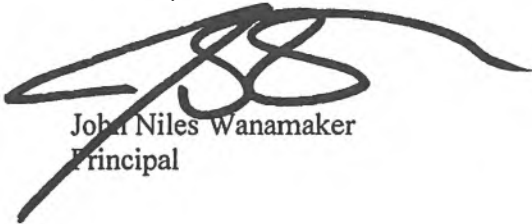
Dear Representative Olson:

I make my living by investing in early-stage companies, primarily technology companies. Regretfully, most of my business activity takes place outside of Alaska, but I choose to remain here (where I was born) and raise my family here.

Much of my civic energy is spent trying to build in (or bring to) Alaska new opportunities around technology and innovation. Please accept this letter of support for HB 252. HB 252 is an example of legislation that can assist us broadening our economic base and creating new jobs.

I hope that you will both move the bill thru committee and support its passage. Policy tools like this are a definitive way government can encourage growth in the private sector economy.

Cordially:



John Niles Wanamaker  
Principal