



Coalition of Small Business Innovators FAQs

What is the Coalition of Small Business Innovators?

The **Coalition of Small Business Innovators** is a national, non-partisan coalition of organizations dedicated to stimulating sustained, private investment in small companies focusing on the development of transformative, life-changing new technologies. With small businesses working to advance research, development, and manufacturing of technologies that have the potential to solve critical economic, environmental, and societal challenges around the world, we seek to educate lawmakers and the public about the value of stimulating investment in these cutting-edge companies.

What is the goal of the coalition?

The Coalition's legislative objectives are to modernize the current U.S. tax code to recognize and promote small business innovation as fundamental to the long-term growth of the U.S. economy. The Coalition's objectives are: (1) stimulating private capital for research by relaxing the passive activity loss rules in Section 469 for small research-intensive companies, which would allow, for example, investors to enjoy more attractive tax treatments for operating losses generated during the R&D process; (2) removing financing restrictions in Section 382 to allow small companies, in certain instances, to retain their net operating losses generated by R&D expenditures; and (3) improving capital gains treatment for small companies by changing the gross assets test in order for these companies to qualify for Section 1202.

What are the guiding principles behind the the Coalition of Small Business Innovators?

Today, our small businesses face significant hurdles to raise the early-stage capital required to fund critical innovation for cutting-edge technologies. Through the tax code, Congress and the Administration should enact policies that promote innovation by small businesses in order to maintain America's global competitiveness, sustain and create American jobs, and incentivize investments in the U.S.

What is a small business innovator?

Small business innovators are mostly pre-revenue companies that require private investment and years of research and development in order to bring the next generation of groundbreaking ideas to market and become profitable. The current tax code does not adequately support this growing segment of small businesses which means fewer high-quality research jobs and fewer revolutionary new products, medicines, and technologies available to the public. These companies rely on investors who are willing to carry investment risk over several years, which the current tax code does not support as well as it could. The Coalition is focused on small innovative companies with less than 250 employees that devote at least 75% of their expenses on R&D related activities.

What benefits have small business innovators created for the American people and economy?

Small research companies are a leading force for innovation in America – and the discovery of cutting-edge products is key to our economic health and prosperity. These small businesses support high-quality jobs across the country while also leading the search for the next scientific breakthroughs or revolutionary technologies. They devote their time and assets to important R&D, pushing the boundaries of science and technology during a long and costly development process.

Small business innovators are working every day to develop next generation technologies to solve the greatest challenges facing our society – whether it’s finding a cure for cancer, developing critical medical devices, increasing energy efficiency, or the manufacturing of sustainable products. These are the next generation of technologies that will propel the U.S. economy forward.

Why is R&D so critical for small business innovators?

The research and development that small business innovators embark on require substantial start-up costs and a lengthy experimentation period. CSBI proposals would make it more attractive to invest in these pioneering innovative industries, providing the capital needed to make key breakthroughs for next generation technologies. Every step Congress takes to incent investment in groundbreaking R&D projects could improve the U.S. innovation ecosystem.

Why is continued investment in R&D important in the U.S. and for U.S. companies?

If the U.S. is to remain competitive, Congress needs to make sure there are policies in place that incentivize small businesses to continue to create new and innovative products and high-quality jobs in the U.S. As tax reform takes shape, it is imperative to modernize the corporate tax code, enabling America to maintain its leadership in key 21st century industries in the face of challenges from foreign competitors. Other nations are placing a higher value on investing in cutting-edge advancements, providing both direct and tax-related incentives. Recent trends show that research and manufacturing employment are leaving the U.S. If Congress doesn’t create a fertile environment for highly innovative small businesses and set the stage for their success, we could lose the opportunity to promote job growth in key R&D sectors and risk losing the next American-generated advances.

What is “patient capital” and why is it important to small business innovators?

Patient capital is another name for long-term capital. With patient capital, an investor is willing to make a financial investment in a business without the expectation of turning a quick profit. Instead, the investor is willing to forgo an immediate return in anticipation of more substantial returns down the road.

This longer term focus allows greater tolerance for risk than traditional investment capital. Therefore, tax incentives make these small research-intensive technology companies more attractive to the private investors and increase the amount of patient capital flowing into groundbreaking R&D projects.

Why do small business innovators need changes to the tax code?

The Coalition supports a U.S. tax code that recognizes innovation and the emergence of highly innovative technologies as a crucial part of the 21st century American economy. By itself, a lower corporate tax rate will not support growth and innovation in America’s pre-revenue small businesses. These pre-revenue, early-stage companies aspire to become profitable and self-sustaining, but first many need to get through the front end of a costly, multi-year research and development timeline. Comprehensive tax reform should go further than “broadening the base and lowering the rate.” Policymakers should specifically promote innovative next generation, research-intensive small businesses. Tax reform should encourage investors to think beyond short term gains and reward patient capital that can fuel leading innovations.