



May 10, 2016

Chairman Kevin Brady
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Ranking Member Sander Levin
House Committee on Ways and Means
1139E Longworth House Office Building
Washington, DC 20515

Dear Chairman Brady and Ranking Member Levin:

On behalf of the National Small Business Association (NSBA), I am pleased to support *H.R. 4831* introduced by Rep. French Hill and urge the House Committee on Ways and Means to swiftly approve this legislation. *H.R. 4831* fixes a significant obstacle for many small businesses looking to take advantage of the crowdfunding provisions included in the JOBS Act of 2012, set to go into effect on May 16, 2016.

NSBA has more than 65,000 members and represents small businesses from all sectors of the economy and in every state in our country. We are dedicated to leveling the playing field and ensuring that small businesses have adequate access to capital in order to spur innovation, bolster job creation, and promote sustainable economic growth. NSBA has warned repeatedly over the last several years that limitations placed on small business' ability to secure capital will continue to hinder broad U.S. economic growth and that there is a clear correlation between a small business owner's ability to get financing and his or her ability to expand their firms and hire new employees. Small businesses employ almost half of the private sector workforce in the U.S. and are the most dynamic and innovative sector of the U.S. economy, yet, according to NSBA members, small-business lending has diminished in recent years and therefore finding new ways for America's smallest employers to access capital is one of NSBA's top priorities.

The 2012 JOBS Act made it easier for small businesses to raise capital by expanding Regulation A and through crowdfunding, allowing companies to more easily raise relatively small amounts of capital from a number of investors. However, restrictions placed on S-Corporations (S-Corps)—most notably the 100-shareholder limitation—may hinder their ability to take advantage of these new avenues to raise capital.

Crowdfunding has enormous potential to create main street investment opportunities for millions of Americans around the country. In turn, it will also increase access to capital for many small businesses as well. However, unless addressed, an unintended consequence of the legislation will

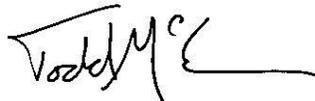
essentially bar many small businesses—42 percent of NSBA members¹—from participating in crowdfunding because of their status as an S-Corp.

Crowdfunding is designed to utilize large numbers of investors contributing relatively modest amounts of capital. These types of offerings can easily and very quickly eclipse 100 purchasers. This means that S-Corps will either have to avoid crowdfunding altogether, or worse, may only find out after the fact that the crowdfunding offering has jeopardized their S-Corp status. In either case, the 100-share limit represents a serious obstacle.

H.R. 4831 would expand the use of Regulation A and crowdfunding to S-Corps by amending the tax code to make an exception to the 100-shareholder S-Corp limitation in the case of shares acquired through certain crowdfunding or small public offerings. This change will enable S-Corps to take full advantage of the provisions included in the JOBS Act and facilitate job creation, incentivize entrepreneurs and promote long-term economic growth. NSBA supports this measure as it is essential for a meaningful number of small businesses to be able to take part in the JOBS Act crowdfunding, one of the cornerstone provisions of that bipartisan legislation.

Thank you for your leadership and I look forward to working with you as this legislation comes before the committee for consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized with a large, sweeping initial "T" and "M".

Todd McCracken
President & CEO

Cc: Rep. French Hill

¹ National Small Business Association, *2015 Year-End Economic Report* at 3, <http://www.nsba.biz/wp-content/uploads/2016/02/Year-End-Economic-Report-2015.pdf>.