TAXING CARRIED INTEREST AS ORDINARY INCOME AND THE POTENTIAL IMPACT ON NEW VENTURE FUND FORMATION*

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We explore the potential impact of taxation of carried interest at ordinary income rates on the economic attractiveness of new VC fund formation and its potential impact across US states. Our analysis suggests that changing the taxation regime for carried interest from taxation at (long-term) capital gains rates to ordinary income rates would significantly reduce the attractiveness of forming a new fund for the vast majority of funds in U.S. states other than CA, MA and NY. These funds are predominantly smaller, earlier stage funds, and represent a significant proportion of available VC funding sources outside of the traditional Big 3 VC states. Given the importance of VC funding for U.S. innovation, our findings may serve to inform and aid policymakers in their current deliberations as they consider, design, and implement potential new tax laws that will affect the VC industry.

Keywords: Venture Capital, Carried Interest, Taxation, Capital Gains

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I. INTRODUCTION

A number of recent proposals in Congress aimed at funding a variety of infrastructure and social programs include the possibility of changing how carried interest in partnerships is taxed. In particular, several recent proposals suggest changing the taxation of carried interest from capital gains to ordinary income rates. Many of these proposals rest on the concern that carried interest taxation at capital gains rates is merely a lucrative loophole for wealthy hedge fund and private equity managers to minimize their tax burden.

This paper considers the impact of such a change in taxation on another industry that relies on carried interest as a form of economic return to its managers—the U.S. venture capital (VC) industry. Unlike the large hedge funds and private equity funds that are typically referenced in the debate on taxation of carried interest, VC funds, particularly early-stage VC funds, are typically much smaller in size and scale than private equity and hedge funds, and as we discuss in this article, are often already economically challenged from an income and return perspective. As a result, changes in the taxation of VC fund managers' income streams from carried interest have the potential to significantly affect the economic attractiveness of forming a new fund. Of particular concern is whether and how a change in taxation could affect the formation of funds, and as a result, investment in high-growth entrepreneurial activity, a key driver of economic growth (Bothelho et al., 2021). If reductions in economic attractiveness of funds are particularly salient in smaller, earlier stage VC funds, which represent the vast majority of available VC funding sources outside of the traditional VC centers of California, Massachusetts, and New York, such tax changes have the potential to have far-reaching effects on the creation and growth of innovation-driven entrepreneurial ventures in precisely the locations where policymakers are often seeking to increase entrepreneurial activity and growth. More generally, however, many significant priorities under consideration by policymakers today—such as those under debate in the *US Innovation and Competition Act*, the *Infrastructure and Jobs Act*, and the Democratic reconciliation bill—rely to great extent on the availability of funding to support the creation and growth of new innovative entrepreneurial ventures. As a result, understanding the effects of associated taxation changes on the VC industry, which provides much of the funding for high-growth innovation-driven entrepreneurial activity, is of paramount importance.

Importantly, VC funds tend to be much smaller than funds in other asset classes that utilize the partnership structure. Specifically, venture capital as an asset class represents less than 10% of the dollars deployed in the private equity or hedge fund asset classes. The vast majority of venture funds are extremely small, particularly in states outside the "Big 3" for venture (CA, MA, NY). Moreover, for these smaller funds, management fees—which typically start at 2 to 2.5% of committed capital annually and decline over the life of the fund—are minimal, and are primarily used to cover basic operating costs.[1] As a result, the potential for carried interest to be earned in the future from a fund plays an important role in determining the economic attractiveness of forsaking outside employment to form a new fund. This is particularly true for smaller funds, which make up the bulk of funds outside the Big 3 states: the median fund size for fund in CA, MA and NY in 2020 was $100M, while the median fund size in the remaining 47 states and DC was $24.6 million (NVCA 2021 Yearbook).

We focus our analysis on these smaller funds (assets under management (AUM)/committed capital of $100 million or less). Our analysis is fairly straightforward and is meant to provide a rough approximation that can be used to inform policy trade-offs. We generate sample income streams for a VC fund manager for funds of varying sizes over the life of a single fund under the current taxation regime and under a proposed tax regime that taxes carried interest at ordinary income rates rather than at capital gains rates. We compare these both across total fund life without accounting for the time value of money or riskiness of cashflows and calculating a present value of the cash flow streams that accounts for both these elements. We also calculate a pre-tax wage earnings equivalent that would equalize the present value of the fund managers' earnings to an annual wage income stream under the current and new tax regimes, in order to illustrate the impact on earnings versus the outside option forgone by the fund manager in each scenario. We then repeat this analysis for a layered two fund scenario that accounts for the fact that most first-time fund managers are able to raise a second fund (but not, typically, a third).

Our analysis suggests that changing the taxation regime for carried interest from taxation at (long-term) capital gains rates to ordinary income rates would significantly reduce the attractiveness of forming a new fund for the vast majority of funds in U.S. states other than CA, MA and NY. These funds are predominantly smaller, earlier stage funds, and represent a significant proportion of available VC funding sources outside of the traditional Big 3 VC states. In particular, when we

[1] Unlike private equity funds, VC funds typically have few other ancillary income or fee opportunities.

compare the earnings from raising a fund for smaller size funds under the current and new tax regimes to a stream of wage earnings that have the same present value, we observe that the fund manager under the new tax regime would be earning a wage equivalent approximately 20-25% lower than under the current tax regime, a substantial income hit.

Importantly, smaller and first-time funds are often the main arena in which diversity in VC partnerships can be found. In 2020, 63% of woman and minority-owned firms in the market were raising first-time funds, with many featuring investment strategies that aimed to address social injustice, including investing in underrepresented entrepreneurs, and the median target fund size for woman and minority-owned firms in 2020 was $75 million (Fairview Capital, 2021).

Importantly, venture capital firms with women partners are more than twice as likely to invest in companies with a woman on the executive team and more than three times as likely to invest in companies with women CEOs (Brush et al., 2018). More generally, VCs are more likely to invest in companies with executives that are ethnically similar to themselves, and this affinity for homophily is strongest during early rounds of investment (Hedge and Tumlinson, 2018).[2] To the extent that raising smaller funds becomes economically less attractive, changing the tax regime may risk a reversal in the gains that are being made towards increasing diversity among the investor community, and as a result, in the progress towards increasing the diversity of the entrepreneur community that is able to access venture capital funding.

Importantly, we note that even under the current tax regime for carried interest, raising a smaller fund could be considered economically unattractive. For example, the pre-tax wage over twelve years that would lead to the same net present value per partner as raising a fund of $10 million that earned the median TVPI (based on combination of salary plus carried interest) is approximately $71,000 under the current tax regime, and $52,000 under the proposed new tax regime (taxation as ordinary income). If we assume the manager can raise a second fund in year 4, those numbers go to approximately $128,000 under the current regime and $102,000 under the new regime. For a fund of $50 million that earned the median TVPI, the pre-tax wage equivalent is approximately $121,000 under the current tax regime, and $107,000 under the proposed new tax regime (taxation as ordinary income). Assuming the manager can raise a second fund, the numbers are approximately $185,000

[2] According to the National Venture Capital Association (NVCA), a recent analysis using Crunchbase data suggests that since 2018, Black-funded venture firms have invested in Black-founded portfolio companies at a rate 4x higher than non-Black-founded VC firms.

versus $166,000 under ordinary income tax rates. When we consider the likely outside options from a wage-earning perspective for the average prospective fund manager, this is a questionable tradeoff. For small funds, raising a fund under the current taxation regime already requires some goodwill. Changing the way carried interest is taxed makes this equation even worse, further reducing the incentive to launch a fund.

II. DATA SOURCES

We utilize data from a number of sources for the purposes of our analysis. First, we obtain data on net-of-fees fund returns from Burgiss (through the Private Capital Research Institute (PCRI)). Burgiss provides us with a pooled (average) and median measure of Total Value to Paid In Capital (TVPI) net-of-fees and carried interest (carry) for funds of the vintage year 2000 to 2011 (to allow for return materialization). TVPI represents the multiple of original committed capital returned to investors, after management fees and carry have been paid out to the GPs. Data downloaded from Burgiss is averaged by fund size buckets for committed capital of $0-20M, $20M-50M, $50M-75M, and $75M-100M. Burgiss data is only available at the national aggregation level (U.S.). Put otherwise, Burgiss does not provide information on the geographic distribution of funds across U.S. states. Summary statistics for the TVPI data from both sources is provided in Table 1. Median fund TVPI is considerably lower than pooled fund TVPI. This is expected, as VC fund performance is highly skewed, with a small number of highly performing funds and many lower or non-performers. We present the results of our analysis both employing the pooled TVPI numbers and the median TVPI numbers.

We also obtain data from PitchBook, which provides us with a breakdown by size bucket of the average number of partners per fund (also presented in Table 1). PitchBook further provided us with a breakdown of the count of funds by state and size bin for vintage years 2005-2020, which we present in Table 2. The vast majority (~80%) of larger VC funds ($100M plus) are located in the Big 3 VC states (CA, MA, NY), and 86% of the largest funds (size greater than $500M) are located in the Big 3 states. In contrast, roughly half of the funds of size less than $50M are located outside the Big 3 states.

III. ANALYSIS

To assess the potential impact of tax law changes on venture fund economic attractiveness, we begin by calculating expected total earnings for a VC fund manager for funds of varying size over

the life of a fund under the current taxation regime (capital gains taxation of carried interest) versus the proposed new taxation regime (taxation at ordinary income rates), as well as how these two numbers compare to typical wage earnings over a similar period. As a second stage, we then explore how these numbers compared when discounted back to present value, first using a risk-free rate alone then using a cost of capital for carried interest earnings that accounts for the riskiness of VC returns.

Understanding the impact of a change in taxation of carried interest requires a number of assumptions. We solicited feedback and input from a focus group of VC fund managers of different size funds in a variety of U.S. locations, as well as from a large law firm that provides legal services to the venture capital industry and a leading accounting expert in the area of VC finance. The resulting assumptions used in the analysis are detailed below.

1. Fund life span: we assume a twelve-year fund lifespan for VC funds. VC funds are typically closed end limited partnerships with a ten- to twelve-year term and an option to extend for a number of years. We assume an investment period of four years.
2. Management fee: VC funds typically provide two streams of income: the management fee, paid annually to the management company of the VC fund, from which expenses and salaries for support employees are paid, and carried interest, which is collected by the general partners of the fund on returned capital that exceeds the original nominal size of the fund (committed capital). We assume a fee structure of two and a quarter (2.25) percentage points annually, stepping down by 0.15625 percentage points annually after the initial investment period, until the management fee hits a floor of one (1) percentage point in the final year of the fund. Fees are calculated as a percentage of original committed capital (fund size).
3. Carried interest: We assume a 20% carried interest on gains above initial committed capital. This assumption and the prior one capture the traditional "2 and 20" fee structure commonly referred to in the VC context, accounting for an increase in management fees in recent years, as well as common provisions for step down of fee rates in typical limited partnership agreements in the VC space.[3] Given a 20% carried interest, calculation of the total carried interest earned by the general partners for a given fund is straightforward: it is simply one quarter of the total amount above committed capital returned to the LPs (as the LPs earn 80%

[3] In reality, fee structures vary somewhat across VC firms and funds, though a structure of the sort we assume is typical. While we do not know the specific fee structures for the funds in the Burgiss index data we employ, our assumption of 2.25% fee and 20% carry should be fairly representative and reasonable.

of the total gain on the fund above committed capital, and the GPs earn the remaining 20%). Using the "Total Value to Paid In" (TVPI or net multiple) for any given fund or fund group, we can thus calculate the total carried interest earned over the life of the fund as $Total\ GP\ Carry = Committed\ Capital\ *\ (TVPI\ -\ 1)\ /\ 4$.[4]

4. Upfront costs: VC fund managers face two types of costs—upfront costs for fund setup ("front-loading"), and ongoing costs. Based on data provided by the NVCA from focus groups with fund managers of different sizes across the U.S., we assume upfront costs of $250,000.
5. Ongoing costs: GPs generally take as salary whatever portion of the management fee is left over after paying for assorted ongoing costs such as rent, travel, accounting, legal, junior payroll, employee benefits, taxes, insurance, office supplies and so forth. While a new fund manager may not draw a salary for a considerable period of time, we assume that the portion of the management fee that goes to the GP in the form of compensation equals 35% of the annual management fee. This compensation includes health insurance costs and FICA. We assume a fringe rate of 25%.
6. Timing of carried interest: when carried interest is earned will vary fund to fund based on exit realizations, the terms set in the limited partnership agreement, whether carry is paid on a deal-by-deal or overall fund basis, the existence of clawbacks, and so forth. Based on data provided by the NVCA, we assume carry is paid out to the GPs beginning in year eight of a fund's life, and follows a hump-shaped pattern over the five-year period spanning years eight to twelve of the fund life. We assume a payout of the 20 points of carry as follows: 2 points in year eight, 4 points in year nine, 8 points in year ten, 4 points in year eleven, and 2 points in year twelve. The timing of carried interest payout will only matter when we account for discounting of income to present value.
7. Marital status and household income: We assume that GPs are married and file taxes jointly with their spouse. We assume that GPs are highly educated, have outside employment opportunities at high wage levels, and marry spouses of similar education and achievement

[4] For clarity, under a 20% carried interest scheme, the GPs get 20% of any cash returned above the original committed capital (20% of gains), while the remaining 80% of gains go to the LPs, a ratio of 1:4 (GP:LP). Since TVPI at end of fund is the total amount paid back to the LPs divided by committed capital, $Committed\ Capital\ *\ (TVPI\ -\ 1)$ is the total gain paid to the LPs (the 4 in the 1:4 ratio), and the GP's carry should thus be ¼ of this amount.

levels. We assume a spousal income of $100,000, and apply taxes based on current (2021) tax brackets. When taxing at ordinary income rates, we include FICA.

8. Follow-on-fund income streams: We assume that the VC firm raises a follow-on fund in year 4, generating an additional stream of fee income and incurring upfront front-loaded costs.
9. Discount rate: For the risk-free rate, we use the 10-year treasury rate for September 2021 to match the approximate expected duration of the typical VC fund. While management fees are typically less risky, and appropriately discounted using the risk-free rate, we note that carried interest is considerably riskier, and should be discounted by a rate appropriate to their risk. We calculate a risk-adjusted discount rate using Korteweg and Sorensen (2010)'s estimate of the beta for private (VC-backed) companies (2.7),[5] and a market equity risk premium from Ken French's website for July 2021 (2.79%). The resulting discount rate is 5.35%.

Having set our assumptions, we next proceed to calculate GP fee and carry compensation on a per-fund basis for a newly raised fund of various sizes.[6] For fee income, we apply the appropriate percentage fee to the size of the fund (committed capital) based on the fee structure outlined above, and allocate 35% of that resulting amount as GP salary income. For GP carry, we use the mean and median TVPIs for the appropriate fund bucket, applied to the fund size, and distributed across the fund's final five years as per the assumptions outlined above. We subtract upfront costs in year zero. We apply the two tax regimes and compare the results, once without accounting for the time value of money or riskiness of cash flows, and once accounting for such elements. We then divide these by the average number of partners per fund for funds in that size bin as provided by PitchBook.

We illustrate this with an example. Consider a fund with committed capital of $20 million. The average net-of-fees TVPI from Burgiss for a fund of this size, historically, has been 1.56, implying a total carry earned by the general partnership of the fund of $\$20M * (1.56 - 1)/4 = \$2.8M$ over the twelve year lifespan of the fund, which we assume (per the above assumptions) is distributed as $280,000 in year eight, $560,000 in year nine, $1,120,000 in year ten, $560,000 in year eleven, and $280,000 in year twelve. The fee structure is applied to the original committed capital of $20 million, generating approximately $450,000 in fees per year in years one through four, $418,750 in

[5] This should actually be a lower bound on the beta, as carried interest is effectively a call option on a portfolio of private companies, and call option elasticity is usually above 1.

[6] For the moment, we abstract away from the GP commit (the amount of capital the GPs themselves invest in the fund, and earn full gains on (taxed as capital gains in both scenarios), as this portion of the GP earnings stream is the same in both scenarios.

year five, $387,500 in year six, $356,250 in year seven, $325,000 in year eight, $293,750 in year nine, $262,500 in year ten, $231,250 in year eleven, and $200,000 in year twelve. Of these fees, however, 65% goes to covering costs of operations, leaving a stream for GP salary of approximately $157,500 in years one through four, $146,500 in year five, $135,600 in year six, $125,000 in year seven, $113,750 in year eight, $102,800 in year nine, $91,875 in year ten, $81,000 in year eleven, and $70,000 in year twelve. This remainder, however, also has to account for FICA, health insurance and other benefits. Applying the assumption of 25% fringe, we arrive at a ***pre-tax*** **income** in total (from fees and carry) of approximately $118,125 in years one through four, $109,900 in year five, $101,800 in year six, $93,500 in year seven, $365,300 in year eight, $637,100 in year nine, $1.2 million in year ten, $620,700 in year eleven, and $332,500 in year twelve.

We then tax each of the elements in the cash flow stream at the appropriate tax rate under the current and proposed taxation regimes. In the non-discounted analysis, we ignore the time value of money and the riskiness of the carry cash flows, and simply sum the total income stream for the two regimes. In the discounted analysis, we account for the time value of money as detailed in the assumptions (salary from fees at risk-free, carry at risk-adjusted). In all cases we further subtract the $250,000 in up front costs incurred in year zero at time of fundraising.

Ignoring risk and the time value of money, our example leads to a total GP earnings (non-discounted) of $2.9 million over twelve years under the current taxation regime, versus $2.3 million under a regime that taxes carried interest at ordinary income rates. Accounting for time value of money and riskiness of carry cash flows, the example leads to a present value of earnings over the fund life of $1.9 million under the current taxation scheme versus $1.6 million under the new proposed scheme over the full twelve-year fund life. As funds of $20 million in size typically only have one partner, this number represents the after-tax earnings for that individual. To put this in context, as a rough example, if the fund manager instead chose to remain employed at, say, a salary of $250,000 a year for twelve years, they would earn $3 million over the twelve-year period ignoring time value of money, and, discounted back to the time of fundraising at the risk-free rate, a pre-tax present value of $2.7 million. The present value of after-tax earnings from wage employment over the twelve-year period at this salary is $1.74 million. In other words, in this example scenario, under the current regime, the fund manager in expectation earns approximately the same amount if he raises the fund versus if he stays in reasonably compensated wage employment. In contrast, under the new taxation regime, the fund manager earns $140,000 less in the present value of after-tax earnings from raising a fund versus staying in wage employment,

reducing the attractiveness of raising the fund. (For the types of people who raise funds, the example above of a $250,000 pre-tax wage is likely quite conservative).

It is worth noting that if a fund manager is able to raise the first fund, they typically are also able to raise a second fund. This is because raising the first fund is prior to the realization of a performance record, and thus hinges on experience and reputation from the fund manager's prior activities. Because the second fund is raised in year four, there typically is still not a performance record for prospective LPs to base their decisions on, and thus, fund managers typically raise from the same set of investors on the same basis of reputation and experience that stood behind fund 1. In contrast, by the time the third fund is raised, there is typically a performance record, and, in fact, the median fund number raised is a second fund, indicating that the majority of fund managers do not manage to raise a third fund once that performance record is observable. We, therefore, conduct a second complimentary analysis, where we layer on a second fund raised in year four (and operationalized in years five through sixteen).

We take this simple approach and apply it for a continuum of fund sizes, comparing post-tax earnings and their present value under the current regime (capital gains for carried interest) to those under the proposed new taxation regime (ordinary income for carried interest).

Table 3 compares total estimated earnings over the twelve-year life of a single fund under the two tax regimes, ignoring the time value of money and riskiness of carry cash flows. We report the total for the fund's general partnership as well as the total per individual partner, by dividing the total for the general partnership by the average number of partners per fund for the fund size bracket as provided to us by PitchBook. Table 4 presents the same analysis, but where we incorporate the time value of money and adjust the discount rate for the riskiness of the carry cash flows. Management fee generated salary is discounted at the risk-free rate, while carried interest earnings are discounted at the risk-adjusted rate. Tables 5 and 6 present the same two analyses, but where we layer in a second fund of similar size. For comparison, Table 7 presents the present values of wage income at varying levels for twelve- and sixteen-year time horizons, to match the durations of one fund and two layered funds. Table 8 then presents the pre-tax annual wage equivalents that would equalize the present value of an individual GP's earnings from raising one or two funds, given the median TVPI for the fund size raised, to the present value of the annual wage income for a similar period.

A key insight that arises from these tables is that the set of funds with assets of $100 million or less that we examine are likely to be negatively affected by a change in the taxation regime, and in

particular, those with committed capital of $50M or less. To provide geographical context for the location of such funds across US states, Table 9 orders the 50 U.S. states by the percentage of their operating funds 2005-2020 that have $50M or less of committed capital, and also presents the percentage of their operating funds that fall into the $50M-$100M range.

IV. DISCUSSION

The taxation of carried interest in partnerships is topic of ongoing discussion in policy circles. As the debate on legislative changes to the carried interest tax regime continues, we hope our analysis can provide additional insights into its potential effects on smaller industries and funds, such as much of the VC industry in Heartland America. Proposals to change taxation of carried interest may wish to consider the tradeoff of potential ramifications to the economic attractiveness of forming VC funds, and as a result, to the potential funding pool for innovation-driven new ventures outside CA, NY and MA.

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V. TABLE AND FIGURES

Table 1: Summary Stats for Fund Performance

			Burgiss	
Size Bin	Fund Size Range in Bin	Avg # Partners (Pitchbook)	Pooled TVPI	Median TVPI
1	0-25	1	1.56	1.37
2	25-50	2	2.22	1.11
3	51-75	2.1	1.75	1.06
4	76-100	2.2	1.22	0.85

Table 2: Funds by State and Size Bin 2005-2020 Vintages

	Funds Less than 50 Mill	50-100Mill	$100M to $250M	$250M to $500M	$500M+
Alabama	8	0	0	0	0
Alaska	1	0	1	0	0
Arizona	32	6	0	0	0
Arkansas	6	0	1	0	0
California	890	299	415	235	162
Colorado	71	9	12	1	2
Connecticut	25	7	7	4	6
Delaware	11	0	0	0	1
District of Col	17	2	8	4	5
Florida	37	11	6	4	2
Georgia	30	7	8	1	0
Hawaii	7	1	0	0	0
Idaho	6	2	0	0	0
Illinois	100	30	30	8	5
Indiana	22	3	0	0	0
Iowa	9	1	0	0	0
Kansas	8	0	0	0	0
Kentucky	11	0	1	0	0
Louisiana	6	6	0	0	0
Maine	3	1	1	0	0
Maryland	30	5	11	2	1
Massachusetts	146	61	84	81	48
Michigan	62	10	5	1	1
Minnesota	27	0	9	5	0
Mississippi	0	0	0	0	0
Missouri	41	8	7	1	0
Montana	4	0	0	0	0
Nebraska	6	0	0	0	0
Nevada	4	1	0	0	0
New Hampshi	67	2	0	0	0
New Jersey	29	4	5	8	3
New Mexico	10	0	0	0	0
New York	393	79	123	50	36
North Carolina	32	6	9	1	0
North Dakota	4	0	0	0	0
Ohio	83	5	3	4	0
Oklahoma	6	0	0	0	0
Oregon	38	0	0	0	0
Pennsylvania	66	8	9	3	1
Rhode Island	3	0	0	0	0
South Carolina	13	0	0	0	0
South Dakota	4	0	0	0	0
Tennessee	37	13	5	0	0
Texas	136	23	18	5	3
Utah	29	10	11	0	0
Vermont	11	0	0	0	0
Virginia	31	13	18	4	3
Washington	67	8	16	13	7
West Virginia	1	0	0	0	0
Wisconsin	39	5	6	0	0
Wyoming	0	0	1	0	0
Totals	2719	646	830	435	286

Table 3: One Fund, No Discounting

Panel A: Comparison of total earnings over full twelve-year fund life, pooled fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.56	1	$ 1,374,984.38	$ 1,047,384.38	$ (327,600.00)	$ 1,367,742.70	$ 1,040,142.70	$ (327,600.00)	-23.95%
20	1	1.56	1	$ 2,999,968.75	$ 2,344,768.75	$ (655,200.00)	$ 2,950,337.45	$ 2,295,137.45	$ (655,200.00)	-22.21%
30	2	2.22	2	$ 8,584,953.13	$ 6,443,853.13	$ (2,141,100.00)	$ 4,108,995.29	$ 3,038,445.29	$ (1,070,550.00)	-26.05%
40	2	2.22	2	$ 11,529,937.50	$ 8,675,137.50	$ (2,854,800.00)	$ 5,542,653.20	$ 4,115,253.20	$ (1,427,400.00)	-25.75%
50	2	2.22	2	$ 14,474,921.88	$ 10,906,421.88	$ (3,568,500.00)	$ 6,975,868.83	$ 5,191,618.83	$ (1,784,250.00)	-25.58%
75	3	1.75	2.1	$ 14,787,382.81	$ 11,496,757.81	$ (3,290,625.00)	$ 6,652,118.82	$ 5,085,154.54	$ (1,566,964.29)	-23.56%
100	4	1.22	2.2	$ 9,192,702.28	$ 7,905,702.28	$ (1,287,000.00)	$ 3,639,194.03	$ 3,054,194.03	$ (585,000.00)	-16.07%

Panel B: Comparison of total earnings over full twelve-year fund life, median fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.37	1	$ 807,579.06	$ 591,129.06	$ (216,450.00)	$ 987,742.70	$ 771,292.70	$ (216,450.00)	-21.91%
20	1	1.37	1	$ 1,865,158.13	$ 1,432,258.13	$ (432,900.00)	$ 2,190,337.45	$ 1,757,437.45	$ (432,900.00)	-19.76%
30	2	1.11	2	$ 1,362,737.19	$ 1,169,687.19	$ (193,050.00)	$ 778,995.29	$ 682,470.29	$ (96,525.00)	-12.39%
40	2	1.11	2	$ 1,900,316.25	$ 1,642,916.25	$ (257,400.00)	$ 1,102,653.20	$ 973,953.20	$ (128,700.00)	-11.67%
50	2	1.11	2	$ 2,437,895.31	$ 2,116,145.31	$ (321,750.00)	$ 1,425,868.83	$ 1,264,993.83	$ (160,875.00)	-11.28%
75	3	1.06	2.1	$ 3,031,842.97	$ 2,768,592.97	$ (263,250.00)	$ 1,723,547.40	$ 1,598,190.25	$ (125,357.14)	-7.27%
100	4	0.85	2.2	$ 2,925,790.63	$ 2,925,790.63	$ -	$ 1,639,194.03	$ 1,639,194.03	$ -	0.00%

Table 4: One Fund, Discounting

Panel A: Comparison of the present value of total earnings over full twelve year fund life, pooled fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.56	1	$ 750,764.40	$ 556,187.29	$ (194,577.11)	$ 878,522.88	$ 683,945.77	$ (194,577.11)	-22.15%
20	1	1.56	1	$ 1,415,985.30	$ 1,026,831.08	$ (389,154.22)	$ 1,979,725.24	$ 1,590,571.02	$ (389,154.22)	-19.66%
30	2	2.22	2	$ 4,405,733.65	$ 3,134,033.24	$ (1,271,700.41)	$ 2,577,051.64	$ 1,941,201.44	$ (635,850.20)	-24.67%
40	2	2.22	2	$ 5,854,964.89	$ 4,159,364.34	$ (1,695,600.55)	$ 3,501,627.16	$ 2,653,826.89	$ (847,800.27)	-24.21%
50	2	2.22	2	$ 7,304,196.12	$ 5,184,695.44	$ (2,119,500.68)	$ 4,424,586.27	$ 3,364,835.93	$ (1,059,750.34)	-23.95%
75	3	1.75	2.1	$ 6,958,038.54	$ 5,003,580.94	$ (1,954,457.60)	$ 4,382,070.01	$ 3,451,375.92	$ (930,694.09)	-21.24%
100	4	1.22	2.2	$ 4,242,411.46	$ 3,478,001.37	$ (764,410.08)	$ 2,711,455.91	$ 2,363,996.79	$ (347,459.13)	-12.81%

Panel B: Comparison of the present value of total earnings over full twelve year fund life, median fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.37	1	$ 659,281.86	$ 530,721.98	$ (128,559.88)	$ 484,948.37	$ 356,388.49	$ (128,559.88)	-26.51%
20	1	1.37	1	$ 1,568,563.72	$ 1,311,443.97	$ (257,119.75)	$ 1,219,896.73	$ 962,776.98	$ (257,119.75)	-21.08%
30	2	1.11	2	$ 1,551,287.91	$ 1,436,626.40	$ (114,661.51)	$ 389,143.71	$ 331,812.96	$ (57,330.76)	-14.73%
40	2	1.11	2	$ 2,151,717.21	$ 1,998,835.20	$ (152,882.02)	$ 602,191.62	$ 525,750.61	$ (76,441.01)	-12.69%
50	2	1.11	2	$ 2,752,146.52	$ 2,561,044.00	$ (191,102.52)	$ 815,239.52	$ 719,688.26	$ (95,551.26)	-11.72%
75	3	1.06	2.1	$ 3,807,759.35	$ 3,651,402.75	$ (156,356.61)	$ 1,059,646.74	$ 985,191.21	$ (74,455.53)	-7.03%
100	4	0.85	2.2	$ 4,447,609.13	$ 4,447,609.13	$ -	$ 1,092,851.90	$ 1,092,851.90	$ -	0.00%

Table 5: Two Funds, No Discounting

Panel A: Comparison of total earnings over the full life of two funds, pooled fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.56	1	$ 2,999,968.75	$ 2,344,768.75	$ (655,200.00)	$ 2,950,337.45	$ 2,295,137.45	$ (655,200.00)	-22.21%
20	1	1.56	1	$ 6,249,937.50	$ 4,939,537.50	$ (1,310,400.00)	$ 6,055,306.40	$ 4,744,906.40	$ (1,310,400.00)	-21.64%
30	2	2.22	2	$ 17,419,906.25	$ 13,137,706.25	$ (4,282,200.00)	$ 8,406,362.35	$ 6,265,262.35	$ (2,141,100.00)	-25.47%
40	2	2.22	2	$ 23,309,875.00	$ 17,600,275.00	$ (5,709,600.00)	$ 11,223,402.50	$ 8,368,602.50	$ (2,854,800.00)	-25.44%
50	2	2.22	2	$ 29,183,149.80	$ 22,046,149.80	$ (7,137,000.00)	$ 14,028,113.44	$ 10,459,613.44	$ (3,568,500.00)	-25.44%
75	3	1.75	2.1	$ 29,756,738.54	$ 23,175,488.54	$ (6,581,250.00)	$ 13,291,482.68	$ 10,157,554.11	$ (3,133,928.57)	-23.58%
100	4	1.22	2.2	$ 18,530,327.28	$ 15,956,327.28	$ (2,574,000.00)	$ 7,252,072.25	$ 6,082,072.25	$ (1,170,000.00)	-16.13%

Panel B: Comparison of total earnings over the full life of two funds, median fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.37	1	$ 2,239,968.75	$ 1,807,068.75	$ (432,900.00)	$ 2,190,337.45	$ 1,757,437.45	$ (432,900.00)	-19.76%
20	1	1.37	1	$ 4,729,937.50	$ 3,864,137.50	$ (865,800.00)	$ 4,535,306.40	$ 3,669,506.40	$ (865,800.00)	-19.09%
30	2	1.11	2	$ 4,099,906.25	$ 3,713,806.25	$ (386,100.00)	$ 1,746,362.35	$ 1,553,312.35	$ (193,050.00)	-11.05%
40	2	1.11	2	$ 5,549,875.00	$ 5,035,075.00	$ (514,800.00)	$ 2,343,402.50	$ 2,086,002.50	$ (257,400.00)	-10.98%
50	2	1.11	2	$ 6,983,149.80	$ 6,339,649.80	$ (643,500.00)	$ 2,928,113.44	$ 2,606,363.44	$ (321,750.00)	-10.99%
75	3	1.06	2.1	$ 9,056,738.54	$ 8,530,238.54	$ (526,500.00)	$ 3,434,339.83	$ 3,183,625.54	$ (250,714.29)	-7.30%
100	4	0.85	2.2	$ 9,730,327.28	$ 9,730,327.28	$ -	$ 3,252,072.25	$ 3,252,072.25	$ -	0.00%

Table 6: Two Funds, Discounting

Panel A: Comparison of the present value of total earnings over the full life of two funds, pooled fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.56	1	$ 1,609,147.08	$ 1,256,697.54	$ (352,449.53)	$ 1,833,739.11	$ 1,481,289.58	$ (352,449.53)	-19.22%
20	1	1.56	1	$ 2,744,864.53	$ 2,039,965.47	$ (704,899.06)	$ 3,662,582.07	$ 2,957,683.01	$ (704,899.06)	-19.25%
30	2	2.22	2	$ 8,162,252.17	$ 5,858,742.73	$ (2,303,509.44)	$ 4,784,730.68	$ 3,632,975.96	$ (1,151,754.72)	-24.07%
40	2	2.22	2	$ 10,787,334.16	$ 7,715,988.23	$ (3,071,345.92)	$ 6,429,396.06	$ 4,893,723.10	$ (1,535,672.96)	-23.89%
50	2	2.22	2	$ 13,412,416.14	$ 9,573,233.74	$ (3,839,182.40)	$ 8,045,895.41	$ 6,126,304.21	$ (1,919,591.20)	-23.86%
75	3	1.75	2.1	$ 12,770,555.93	$ 9,230,326.26	$ (3,540,229.68)	$ 7,863,110.97	$ 6,177,287.31	$ (1,685,823.65)	-21.44%
100	4	1.22	2.2	$ 7,759,492.31	$ 6,374,869.15	$ (1,384,623.16)	$ 4,795,942.48	$ 4,166,568.31	$ (629,374.16)	-13.12%

Panel B: Comparison of the present value of total earnings over the full life of two funds, median fund TVPI.

Fund Size (mill)	Size Bin	Historical TVPI	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Total VC Comp New Tax Over 12yr Fund Life	Diff Between Old and New	Per Partner Total VC Comp Old Tax	Per Partner Total VC Comp New Tax	Per Partner Diff	% Change
10	1	1.37	1	$ 1,461,999.40	$ 1,229,130.95	$ (232,868.44)	$ 1,122,110.61	$ 889,242.17	$ (232,868.44)	-20.75%
20	1	1.37	1	$ 2,980,131.80	$ 2,514,394.92	$ (465,736.88)	$ 2,372,300.43	$ 1,906,563.55	$ (465,736.88)	-19.63%
30	2	1.11	2	$ 2,916,866.60	$ 2,709,173.12	$ (207,693.47)	$ 877,559.77	$ 773,713.03	$ (103,846.74)	-11.83%
40	2	1.11	2	$ 3,972,488.79	$ 3,695,564.16	$ (276,924.63)	$ 1,253,413.03	$ 1,114,950.71	$ (138,462.32)	-11.05%
50	2	1.11	2	$ 5,028,110.99	$ 4,681,955.20	$ (346,155.79)	$ 1,629,266.29	$ 1,456,188.39	$ (173,077.90)	-10.62%
75	3	1.06	2.1	$ 6,824,088.49	$ 6,540,870.12	$ (283,218.37)	$ 2,050,432.81	$ 1,915,566.92	$ (134,865.89)	-6.58%
100	4	0.85	2.2	$ 7,862,436.62	$ 7,862,436.62	$ -	$ 2,090,994.52	$ 2,090,994.52	$ -	0.00%

Table 7: Wage Income Alternative

Annual Wage	Wage Post Tax	PV of 12yrs Working	PV of 16yrs Working
$200,000	$126,001	$1,391,631	$1,809,597
$250,000	$157,501	$1,739,537	$2,261,994
$300,000	$189,001	$2,087,443	$2,714,392
$350,000	$220,501	$2,435,350	$3,166,789
$400,000	$252,001	$2,783,256	$3,619,186
$450,000	$283,501	$3,131,162	$4,071,583
$500,000	$315,001	$3,479,068	$4,523,980

Table 8: Wage Income Equivalent

Panel A: One Fund, Twelve Years, median TVPI

Fund Size (mill)	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Per Partner Total VC Comp Old Tax	Pre-Tax Annual Wage Equivalent Old	Total VC Comp New Tax Over 12yr Fund Life	Per Partner Total VC Comp New Tax	Pre-Tax Annual Wage Equivalent New	Difference (New-Old)	% Change
10	1	$ 659,281.86	$ 484,948.37	$ 71,980.39	$ 530,721.98	$ 356,388.49	$ 52,898.38	$ (19,082.01)	-26.51%
20	1	$ 1,568,563.72	$ 1,219,896.73	$ 181,068.03	$ 1,311,443.97	$ 962,776.98	$ 142,904.00	$ (38,164.02)	-21.08%
30	2	$ 1,551,287.91	$ 389,143.71	$ 57,760.20	$ 1,436,626.40	$ 331,812.96	$ 49,250.66	$ (8,509.55)	-14.73%
40	2	$ 2,151,717.21	$ 602,191.62	$ 89,382.69	$ 1,998,835.20	$ 525,750.61	$ 78,036.63	$ (11,346.06)	-12.69%
50	2	$ 2,752,146.52	$ 815,239.52	$ 121,005.17	$ 2,561,044.00	$ 719,688.26	$ 106,822.59	$ (14,182.58)	-11.72%
75	2.1	$ 3,807,759.35	$ 1,059,646.74	$ 157,282.28	$ 3,651,402.75	$ 985,191.21	$ 146,230.93	$ (11,051.36)	-7.03%
100	2.2	$ 4,447,609.13	$ 1,092,851.90	$ 162,210.89	$ 4,447,609.13	$ 1,092,851.90	$ 162,210.89	$ -	0.00%

Panel B: Two Funds, Sixteen Years, median TVPI

Fund Size (mill)	Average Num of Partners	Total VC Comp Old Tax Over 12yr Fund Life	Per Partner Total VC Comp Old Tax	Pre-Tax Annual Wage Equivalent Old	Total VC Comp New Tax Over 12yr Fund Life	Per Partner Total VC Comp New Tax	Pre-Tax Annual Wage Equivalent New	Difference (New-Old)	% Change
10	1	$ 1,461,999.40	$ 1,122,110.61	$ 128,084.51	$ 1,229,130.95	$ 889,242.17	$ 101,503.49	$ (26,581.02)	-20.75%
20	1	$ 2,980,131.80	$ 2,372,300.43	$ 270,788.75	$ 2,514,394.92	$ 1,906,563.55	$ 217,626.72	$ (53,162.03)	-19.63%
30	2	$ 2,916,866.60	$ 877,559.77	$ 100,169.99	$ 2,709,173.12	$ 773,713.03	$ 88,316.30	$ (11,853.70)	-11.83%
40	2	$ 3,972,488.79	$ 1,253,413.03	$ 143,072.16	$ 3,695,564.16	$ 1,114,950.71	$ 127,267.23	$ (15,804.93)	-11.05%
50	2	$ 5,028,110.99	$ 1,629,266.29	$ 185,974.33	$ 4,681,955.20	$ 1,456,188.39	$ 166,218.17	$ (19,756.16)	-10.62%
75	2.1	$ 6,824,088.49	$ 2,050,432.81	$ 234,048.83	$ 6,540,870.12	$ 1,915,566.92	$ 218,654.42	$ (15,394.41)	-6.58%
100	2.2	$ 7,862,436.62	$ 2,090,994.52	$ 238,678.79	$ 7,862,436.62	$ 2,090,994.52	$ 238,678.79	$ -	0.00%

Table 9: Where Are the Most Affected Funds?

	% Funds Less than 50 Mill	% of Funds 50-100Mill
Alabama	100%	0%
Kansas	100%	0%
Montana	100%	0%
Nebraska	100%	0%
New Mexico	100%	0%
North Dakota	100%	0%
Oklahoma	100%	0%
Oregon	100%	0%
Rhode Island	100%	0%
South Carolina	100%	0%
South Dakota	100%	0%
Vermont	100%	0%
West Virginia	100%	0%
New Hampshire	97%	3%
Delaware	92%	0%
Kentucky	92%	0%
Iowa	90%	10%
Indiana	88%	12%
Hawaii	88%	13%
Ohio	87%	5%
Arkansas	86%	0%
Arizona	84%	16%
Nevada	80%	20%
Michigan	78%	13%
Wisconsin	78%	10%
Pennsylvania	76%	9%
Idaho	75%	25%
Colorado	75%	9%
Texas	74%	12%
Missouri	72%	14%
Tennessee	67%	24%
North Carolina	67%	13%
Minnesota	66%	0%
Georgia	65%	15%
Florida	62%	18%
Maryland	61%	10%
Washington	60%	7%
Maine	60%	20%
New Jersey	59%	8%
Utah	58%	20%
Illinois	58%	17%
New York	58%	12%
Connecticut	51%	14%
Alaska	50%	0%
Louisiana	50%	50%
District of Colum	47%	6%
Virginia	45%	19%
California	44%	15%
Massachusetts	35%	15%
Mississippi	0%	0%
Wyoming	0%	0%