

House Ways and Means Committee
H. 110 – Capital Gains Exclusion
Rep. Heidi E. Scheuermann
February 3, 2017

Thank you for inviting me here today to present H. 110.

In my years here in the Legislature, and most specifically through my six years on the Economic Development Committee, I have learned a great deal about access to capital in Vermont – specifically, the challenges that our entrepreneurs, our start-ups, and growth stage businesses have in obtaining the needed capital to grow and prosper.

Indeed, the situation has improved over the course of the last few years – both in terms of capital provided by the public sector and leveraged with private funds, and more and more venture and angel investor capital being pumped into the economy.

Last Biennium, for example, we increased the Licensed Lender Limit from \$75,000 to \$250,000 – which is encouraging more individuals to invest in our Vermont people and businesses.

And the VT Department of Financial Regulation’s work two years ago on the Small Business Offering Exemption has added another significant tool.

But there remains much to be done. Vermont continues to lag behind most other states in venture and angel capital, and given the changing economy we need to do all we can to reverse that.

As you all might remember, I have long been a proponent of up front tax credits for angel investors, in order to encourage angel and venture capital investment in Vermont start-up and growth-stage businesses. But, as you also know, the political reality makes those kinds of efforts difficult.

So, last year, after some discussion with a variety of people, I decided to go in a different direction. I decided to model an investor incentive after the IRS 1031 exchange. Essentially, the 1031 exchange allows a taxpayer to defer recognition of capital gains and other federal tax liability on the exchange of certain types of property. So, if a taxpayer sells a business and purchases another one, the capital gains on the sale would be deferred as long as the purchased business is held as a business.

So, in H. 110, like my bill last year, instead of being an upfront tax credit, the incentive would be on the back end.

Specifically, H. 110 would encourage Vermonters who have experienced financial success, to reinvest those gains into another Vermont business. And, in doing so, 60% of those gains would be excluded from our state's income tax.

As we try to address the significant demographic challenges facing our state and ensure greater opportunities for our young adults and families, greater access to private capital for our entrepreneurs, start-ups, and growth stage businesses is an absolute necessity.

H. 110 would allow this kind of investment to happen.

Thank you again for inviting me, and for your consideration.