



Written Statement for the Record

U.S. House of Representatives, Committee on Ways and Means

April 11, 2024 - Hearing on: Expanding on the Success of the 2017 Tax Relief to Help Hardworking Americans

Introduction

The Small Business Investor Alliance is a national association that develops, supports, and advocates on behalf of policies that benefit investment funds that finance small and mid-size businesses in the lower middle market, as well as the investors that provide capital to these funds. Our membership consists of the advisers of traditional 3(c)(1) and 3(c)(7) private funds, small business investment companies (“SBICs”), rural business investment companies (“RBICs”), funds registered as business development companies (“BDCs”) under the Investment Company Act of 1940.

Created in 1980 with overwhelming bipartisan Congressional support, Business Development Companies (BDCs) are job-creating engines that provide access to capital for American small- and medium-sized businesses. In 1980, when the U.S. was dealing with high unemployment and an energy crisis, Congress wanted to boost economic growth by increasing access to capital for American businesses. This was a bipartisan effort.

The BDC structure is one of the most transparent, heavily regulated forms of middle market lending in the capital markets. BDCs provide funding to middle market companies that are not yet large enough to access broad capital markets but require more capital for growth than banks can provide.

The BDC structure also offers retail or Main Street investors the opportunity to invest in smaller U.S. companies that otherwise only high net worth investors can access. This helps to close both the investment opportunity gap and the capital gap. BDCs have provided good returns to investors compared to traditional fixed income investments.

SBIA supports tax parity for Business Development Company (BDC) investors on Qualified Business Income.

- On August 18th 2023, Reps. Jodey Arrington (R-TX), Brian Boyle (D-PA), Darin LaHood (R-IL), and Danny Davis (D-IL) introduced the [Small Business Investor Tax Parity Act](#) which would extend the 20% qualified business income deduction included in the 2017 reform to Business Development company shareholders, in line with those of REITs and S-Corp banks.

- Business Development Companies (BDCs) are operationally similar to S-Corp Banks and BDC retail shareholders have a profile similar to REIT retail shareholders. For this reason, income from BDC and REIT investments have historically been taxed in the same way as those entities.
- By statute, the vast majority of BDC investments must be in private U.S. businesses only. BDCs have over \$275 billion invested in small- and medium-sized business across the country.
- Under Sec. 199A of the Tax Code, taxpayers are generally allowed a deduction of up to 20% of total qualified business income from a domestic flow-through entity. In the 2017 Tax Cut and Jobs Act, this 20% deduction was extended to REITs, S-Corp Banks, and most other pass-through entity shareholders. Even though BDCs electing "regulated investment company" treatment and REITs are both subject to Sub-chapter M of the tax code, BDCs were excluded from this effort. Congress should address this disparity in the tax code and ensure that BDC investors continue to receive the same tax treatment as similar entities.
- By law, BDCs must invest at least 70% of their assets in private and small-cap U.S. businesses, creating jobs and helping fill a void in the capital markets. In actuality, BDC investments are overwhelmingly made in U.S. entities.
- BDCs are currently held by the following types of investors: 50% Individuals, 30% IRAs and 20% Institutions (approximation).
- Only the individual retail investors – likely many of which are retirees – will benefit from the deduction.
- **SBIA urges Congress to address this disparity in the tax code and ensure that BDC shareholders receive the same tax treatment as similar entities.**

SBIA thanks you for your leadership and looks forward to collaborating to foster the expansion of small and medium-sized businesses, while creating jobs and bolstering retirement savings for millions of Americans.