



Startup America Suggestion of the Day: Repeal Section 280G

By [Joe Wallin](#)

March 24, 2011

If you are not familiar with the excise tax on parachute payments, Sections 280G and [4999](#) of the Internal Revenue Code impose a 20% excise tax on compensatory payments made in connection with a change in control transaction to certain persons (typically, executive officers) that exceed 3x average annual salary.

Why is this a bad deal for startups?

Because very often founders work for very little salary income. Thus, it is not difficult for founders to exceed 3x of a low salary amount if they are to receive a bonus contingent on a change in control transaction.

I have been writing posts about what the White House's Startup America initiative can do to make life better for startups. A significant theme of the Startup America initiative is reducing regulatory burdens and complexity of laws applicable to startups.

My suggestion for today--exempt startups and companies beneath a certain size level from Section 280G.

This advisory is a publication of Davis Wright Tremaine LLP. Our purpose in publishing this advisory is to inform our clients and friends of recent legal developments. It is not intended, nor should it be used, as a substitute for specific legal advice as legal counsel may only be given in response to inquiries regarding particular situations.