CONFIDENTIAL DRAFT

FOR DISCUSSION ONLY

July 7, 2026

POLICY BRIEF: THE MENTORSHIP & CAPITAL EQUITY ACT

An Innovative Tax Framework to Build Generational Wealth Through Capital Sharing

Executive Summary

The American economy relies heavily on entrepreneurship to generate wealth, yet individuals from economically disadvantaged backgrounds face a structural barrier: **it takes capital to acquire capital.** Current federal tax incentives are binary—they either reward W-2 employment (leaving individuals as workers) or require 51% minority ownership to unlock government contracts (which introduces massive operational risk when a partner lacks business experience).

This Act introduces a middle ground: **The Qualified Mentorship Partnership (QMP)**. By providing robust tax credits to experienced capitalists who share their financial upside with disadvantaged partners while retaining operational control, this policy bridges the generational wealth gap without risking business failure.

The Problem: The "All-or-Nothing" Capital Trap

- **The Access Gap:** Aspiring entrepreneurs without wealthy families or "rich uncles" lack the initial seed capital and network to launch scalable businesses.
- **The Control Paradox:** Forcing inexperienced individuals into 51% management roles to qualify for government programs often sets the business up for failure, scaring away experienced mentors.
- **The Worker Trap:** Existing credits like the Work Opportunity Tax Credit (WOTC) only reward hiring individuals as W-2 employees. This provides income, but it fails to build long-term equity or asset ownership.

The Solution: The Qualified Mentorship Partnership (QMP)

This legislation amends the Internal Revenue Code to allow an experienced business founder (the Majority Owner) and an underserved individual (the Minority Partner) to form a QMP under a standard LLC or corporate structure.

1. Investor Tax Incentives (The Pull Factor)

- **The QMP Investment Credit:** The Majority Owner receives a dollar-for-dollar federal tax credit equal to 25% of the capital they personally risk to launch or expand the joint business.

- **The Profit-Sharing Match:** For every dollar of net profit the business distributes to the disadvantaged Minority Partner, the Majority Owner receives a 1.5x bonus tax deduction. This aligns the capitalist's financial self-interest directly with their partner's wealth accumulation.

2. Structural Protections (The Steering Wheel)

- **Preservation of Control:** The law explicitly allows the Majority Owner to retain **100% of voting, operational, and managerial control** over the entity.
- **The Shielding Factor:** Experienced business owners can safely navigate the company through complex markets (such as film production or yacht charters) while the Minority Partner gains hands-on exposure and passive wealth.

3. The Wealth Realization (The Tax-Free Exit)

- **Capital Gains Exemption:** Upon the eventual sale of the company or its assets, 100% of the capital gains realized by the disadvantaged Minority Partner are entirely exempt from federal taxation, allowing them to exit with clean, un-taxed seed capital for future ventures.

Strict Guardrails & Eligibility (Preventing Abuse)

To prevent the framework from being exploited as a tax shelter for wealthy families, a **Minority Partner** must pass a "Five-Gate Test" administered via tax return, financial, and academic data. An individual must meet **at least one** of the following criteria to qualify:

- **The Wealth Cap:** Personal net worth must be under $50,000, and parental net worth must be under $250,000 (verifiable via past FAFSA or IRS data).
- **The Higher Education Gate:** Must be currently enrolled as a **full-time student** at an accredited state college, university, or community/junior college.
- **The Debt-Trap Gate:** Must possess at least **$30,000 in non-cancelable federal or private student loan debt**, establishing a negative structural net worth.
- **The Geographic Rule:** Must have resided in a federally designated HUBZone or Opportunity Zone for 3 of the past 5 years.
- **The Systemic Barrier Check:** Automatic qualification for justice-impacted individuals, individuals with documented permanent disabilities, or youth aging out of foster care.

Anti-Scam Clauses:

- **Anti-Nepotism:** The Minority Partner cannot be related to the Majority Owner by blood or marriage.
- **The Graduation Cap:** Once the Minority Partner receives $500,000 in total business distributions, the Majority Owner’s bonus tax incentives sunset, encouraging them to mentor a new individual.

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