

The Baldwin-Pascrell Carried Interest Fairness Act

The carried interest loophole allows certain investment managers to benefit from a tax loophole that allows them to take advantage of the preferential 20 percent long-term capital gains tax rate on income received as compensation, rather than the ordinary income tax rates of up to 37 percent that all other Americans pay. This legislation requires carried interest income to be taxed at ordinary rates. According to the Congressional Budget Office, closing this loophole will [raise](#) \$14 billion in revenue over 10 years.

President Trump included closing the carried interest tax loophole in his [campaign tax reform plan](#) and spoke about it extensively, stating, "We will eliminate the carried interest deduction and other special interest loopholes that have been so good for Wall Street investors, and for people like me, but unfair to American workers." Yet President Trump's Tax Cuts and Jobs Act "[failed](#) to eliminate [the] key deduction used by wealthy investment firms that Trump had vowed to kill," leading PolitiFact to rate this a "[Promise Broken](#)." Senate Republicans [rejected](#) an amendment to the tax bill by Senator Baldwin to close the loophole.

Broad Support for Closing the Carried Interest Loophole

Candidate Trump joined a growing chorus of voices from both sides of the aisle calling for the carried interest loophole to be closed. Senate Finance Committee Chairman **Chuck Grassley** has [expressed](#) openness to closing the loophole and correctly described the issue as "not about raising taxes on capital income . . . it is about the definition of capital income versus labor income." In 2014, **House Republicans** even recognized carried interest as a loophole with its inclusion in the Republican Tax Reform Draft of 2014

"Our plan closes loopholes and cuts the size of the code by 25 percent, making it simpler, fairer, and more effective and efficient. This includes a range of provisions including...requiring hedge fund managers and private equity firms to treat carried interest compensation as ordinary income, rather than capital gain."

Support for closing the loophole can be found among the American public and industry leaders alike. A 2012 Bloomberg News poll found that **68 percent of Americans thought the carried interest loophole was "unreasonable."** A growing group of **investment managers** [believe](#) the treatment of carried interest should change. "Taxing carried interest at the same rate as ordinary income is not unreasonable to me," said Marc Lasry, CEO and co-founder of \$13.2 billion hedge and private equity fund firm Avenue Capital Group. Lasry's comments join a group of prominent investors who believe carried interest should be addressed. They include, among others, George Soros, Bill Ackman, Tom Steyer, Jim Chanos, Orin Kramer, Steve Rattner and Leo Hindery.

The Carried Interest Fairness Act is supported by: AFL-CIO, The Agenda Project, American Family Voices, American Federation of Government Employees, American Federation of State County and Municipal Employees, American Federation of Teachers, American Postal Workers Union, Americans for Financial Reform, Catholics in Alliance for the Common Good, Center for Popular Democracy Action, Communications Workers of America, Consumer Action, Courage Campaign, Credo, Democracy for America, Economic Policy Institute, Franciscan Action Network, Friends of the Earth, Hedge Clippers, Institute for Policy Studies, Media Voices for Children, MoveOn.org, National Education Association, NETWORK, The Other 98%, Patriotic Millionaires, People's Action Institute, Presente.org, Public Citizen, Service Employees International Union, Strong Economy for All Coalition, The Rootstrikers at Demand Progress, UNITE-HERE, U.S. Public Interest Research Group, United Auto Workers, Working America, and the Working Families Party.