

The Carried Interest Fairness Act

Senator Tammy Baldwin & Representative Sander Levin

The Loophole

The carried interest tax loophole benefits certain investment fund managers – including private equity fund managers – by allowing them to take advantage of the preferential 20-percent long-term capital gains rate on income received as compensation, rather than the ordinary income tax rates of up to 39.6-percent that all other Americans pay.

The Reform

The *Carried Interest Fairness Act* would end this loophole by ensuring that income earned by managing other people's money is taxed at the same ordinary income tax rates as that of the vast majority of Americans. The non-partisan Joint Committee on Taxation (JCT) estimated that this legislation, by closing the carried interest loophole, would raise \$15.6 billion in revenue over ten years. This additional revenue could help reduce the deficit and be invested in strengthening the middle class.

President Trump's Promise

As a candidate, Trump said “As part of this reform, 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.” However, when President Trump released a one-page tax reform outline, it did not include details or any reference to closing the carried interest loophole. Not only that, but his plan may lower tax rates for hedge fund managers even further.

Broad Support

In the 2016 presidential election, Donald Trump, Hillary Clinton, Jeb Bush and Bernie Sanders all spoke out in favor of closing the carried tax loophole. President Obama also supported proposals to require investment managers to treat their carried interest income as ordinary income rather than capital gain. House Republicans previously proposed closing the carried interest loophole in the Republican Tax Reform Draft of 2014.

The *Carried Interest Fairness Act* is also supported by the 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 Rootstrickers at Demand Progress, UNITE-HERE, U.S. Public Interest Research Group, United Auto Workers, Working America, and the Working Families Party.