Senate Democrats take aim at carried interest
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Pensions & Investments
May 12, 2021

Legislation that would end carried interest for investment managers was introduced Wednesday by a group of Senate Democrats.

The proposed Carried Interest Fairness Act would take away the current 20% long-term capital gains tax rate, leaving investors to pay ordinary income tax rates of up to 37%. It would have a large effect on income that private equity and other alternative managers, for example, receive as compensation. The Joint Committee on Taxation estimates that making the change would raise $15 billion in revenue over 10 years.

Introduced by Sens. Tammy Baldwin of Wisconsin, Joe Manchin of West Virginia and Sherrod Brown of Ohio, the legislation is co-sponsored by 11 other Democratic senators.

Threats of ending what some legislators characterized as a tax loophole that benefits Wall Street firms have been a recurring theme. Former President Donald Trump raised it as a campaign issue, and President Joe Biden has called for Congress to end it as the economy and workers struggle to recover from the COVID-19 crisis.

A White House fact sheet on Mr. Biden's American Families Plan proposal said that permanently eliminating carried interest "is an important structural change that is necessary to ensure that we have a tax code that treats all workers fairly."

Drew Maloney, president and CEO of private equity advocacy group American Investment Council, said in a separate statement that tax changes made in 2017 “made sure that investors only realize long-term capital gains carried interest after investing in a company for over three years.”

“As workers and local economies continue to struggle during this pandemic,” he said, “Washington should not punish long-term investment that creates jobs, builds businesses in communities and develops more renewable energy across America.”

Mr. Maloney said that the negative impact of the Senate proposal and a similar one in the House “is also not limited to private equity or venture capital” and could trigger tax increases for other types of partnerships.