One of the most extreme examples of Wall Street privilege is the tax loophole that allows private equity and hedge fund managers to pay a 20 percent capital gains rate on the bulk of their income, rather than the 39.6 percent ordinary income rate. As a result, some of the wealthiest Americans pay a lower tax rate than millions of our country’s teachers, firefighters, and nurses.

This loophole is a “policy mistake” won by Wall Street lobbyists, according to President Reagan’s Assistant Treasury Secretary for Tax Policy, John Chapoton. He and many other leading tax and finance experts argue that the profit share (commonly known as “carried interest”) these investment fund managers receive is a form of compensation for their services and should not be treated as capital gains.

Why we should eliminate the loophole:

1. **Correct an egregious example of tax unfairness.** This loophole is a significant factor in the growing gap between the richest 1% and the rest of America. The top 25 hedge fund managers earned a total of $12 billion in 2015, according to Forbes. By comparison, the country’s 158,000 kindergarten teachers earn about $8.5 billion a year in total. Private equity fund managers also receive massive paychecks. Stephen Schwarzman, co-founder of the Blackstone Group, for example, earned $811 million in 2015.

2. **Raise significant revenue.** The Joint Committee on Taxation estimates that closing this loophole would generate $15.6 billion over 10 years. Other tax experts predict far larger amounts. Victor Fleischer, Professor of Law at the University of San Diego, for example, estimates that fixing this loophole would result in $180 billion over 10 years. These funds could be used to reinvest in efforts to help working families deal with today’s economy.

3. **Address broad-based public concerns.** Polls show a strong majority of Americans oppose this unfair loophole—by 68% to 17%, according to Bloomberg News. Also, there is support for reform from across the political spectrum. President Obama has included a fix in his budget proposals and Democratic proposals have passed the House several times. Republican supporters include Donald Trump, Jeb Bush, former House Ways and Means Chairman Dave Camp, and former Deputy Under Secretary for Tax Policy Michael Graetz. A number of industry leaders have also criticized this loophole, including Warren Buffett and hedge fund managers Marc Lasry, Scott Fearon, and Jim Chanos.

4. **Level the industry playing field and curb tax dodging.** Eliminating this loophole would remove a tax preference that currently favors private equity firms over other U.S. corporations. It would also discourage other forms of tax dodging aimed at converting short-term to long-term gains for tax purposes.

**Proposed Legislation:**

The Carried Interest Fairness Act of 2015 (HR 2889/S 1689) requires that the “carried interest” compensation received by private equity and hedge fund managers be taxed at ordinary income rates rather than the much lower capital gains rate.

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