EnCap Investments L.P.

April 11, 2025

Dear Senator Cornyn and Representatives Arrington, Van Duyne, and Moran:

As a private equity firm that provides capital to independent energy companies, we write to urge you to preserve the current tax treatment of carried interest – a critical mechanism that supports energy investment, job creation, and the long-term growth of a resilient, domestically powered economy.

Since 1988, EnCap Investments has been a leading provider of venture capital to the independent sector of the U.S. energy industry. The firm has raised 25 institutional funds totaling more than $47 billion and currently manages capital on behalf of more than 350 U.S. and international investors.

The carried interest structure has been in place for over a century to reward long-term investment and responsible risk-taking across America and has been crucial in capital-intensive industries like oil and gas. In our sector, smaller independent producers often rely on partnerships with private capital to fund drilling operations, adopt new technologies, and navigate commodity volatility. These partnerships are especially vital in states like Texas, where energy production is not only a core industry but a key driver of local jobs and innovation.

Our firm alone has invested in numerous energy ventures across Texas – investments that have helped expand production, create high-paying jobs, and support energy independence. This model works because it allows firms like ours to take real risk – financial, operational, and reputational – alongside the businesses we back. The capital gains treatment of carried interest recognizes that risk, whether it's sweat equity, personal guarantees, or long-term, performance-based returns.

Eliminating or changing that treatment would impose a disproportionate tax burden on the partnerships that have proven essential to America's energy economy. It would make it harder to deploy capital to the kinds of businesses and communities that need it most. It would also chill innovation and risk-taking at a time when energy security and affordability should be national priorities.

These investment partnerships not only serve to support America's energy dominance, but they can provide financial benefits to those not working directly in the oil and gas industry. As an example, among our investors from the U.S. you will find institutional investors such as pension plans – critical partnerships for investing that support everyday Americans planning or securing their retirement. The carried interest is our incentive to form and manage these funds, which provide returns to such investors that helps secure pension payments for retirees.

To be clear, there is not any preferential tax treatment for carried interest. Taxable income is characterized as either ordinary income or long-term capital gain based on the underlying activity at the portfolio company level. All taxable income from an investment is allocated to our investors or us as the fund manager in the form of a carry, retaining its character as either ordinary income or long-term capital gain.

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Furthermore, the existence of carry actually creates more tax revenue for the federal, state, and local governments, as it shifts some taxable income from investors (e.g., pension plans), which are not tax paying entities, to the fund manager, which does pay taxes.

This issue was addressed in 2017 through meaningful reforms. Revisiting it now—especially in a way that could be applied retroactively—would be a step backward. It would not only penalize our industry but send a broader message that long-term investment and entrepreneurship are no longer valued.

We urge you to oppose any effort to raise taxes on carried interest. Doing so would undermine the very partnerships that are powering America's energy future.

Sincerely,

Jason M. DeLorenzo
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Delivered via email

cc: Rep. August Pfluger