Economic Impact on the Private Funds and Real Estate Industries Due to Potential Increases in Tax on Carried Interest

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Executive Summary

This report offers the most conservative estimate of the potential impact of carried interest capital gains. My previous study for the US Chamber of Commerce highlighted the worst-case scenario of proposed changes to recharacterize carried interest capital gains.

- The three main industries potentially subject to increased taxes on carried interest capital gains are private equity (PE), venture capital (VC), and real estate partnerships. These firms and their portfolio companies account for an estimated 32 million American jobs and provide annual estimated Federal tax revenues of over $376 billion.

This study's main findings related to increased taxes on carried interest capital gains are as follows:

- If carried interest is taxed as ordinary income instead of a capital gain, the Federal tax rates on general partners/managers of private equity firms, venture capital firms, and real estate partnerships would significantly increase. Applying standard economic theory, this tax law change would result in a reduced incentive for partners to stay in the industry[1] and reduced incentives to invest in longer-term and riskier projects, thus reducing overall investments and reducing rates of return on projects undertaken. Additionally, many companies that would normally seek PE and VC investments may be unable to find financing and fail (or downsize); which would normally seek PE and VC investments may be unable to find financing and fail (or downsize); investments may be unable to find financing and fail (or downsize);

- **Net tax collections will decline.** Applying standard economic theory, if carried interest is taxed as ordinary income, estimated potential net federal revenue losses could be up to $1.2 billion per year in the first year of implementation, increasing to as much as $12.84 billion per year after 10 years (revenues used to fund other programs)[2] ;

- **Job losses will result.** Applying standard economic theory, if carried interest is taxed as ordinary income, estimated potential long-run losses could be up to 1.23 million jobs across the United States;

- **A downsizing in critical American industries in manufacturing, infrastructure, and technology will occur;**

- **A downsizing of the real estate industry, which builds affordable housing, will occur;**

- Even with a .3% downsizing in the private funds and real estate industries, the federal government could likely lose money.

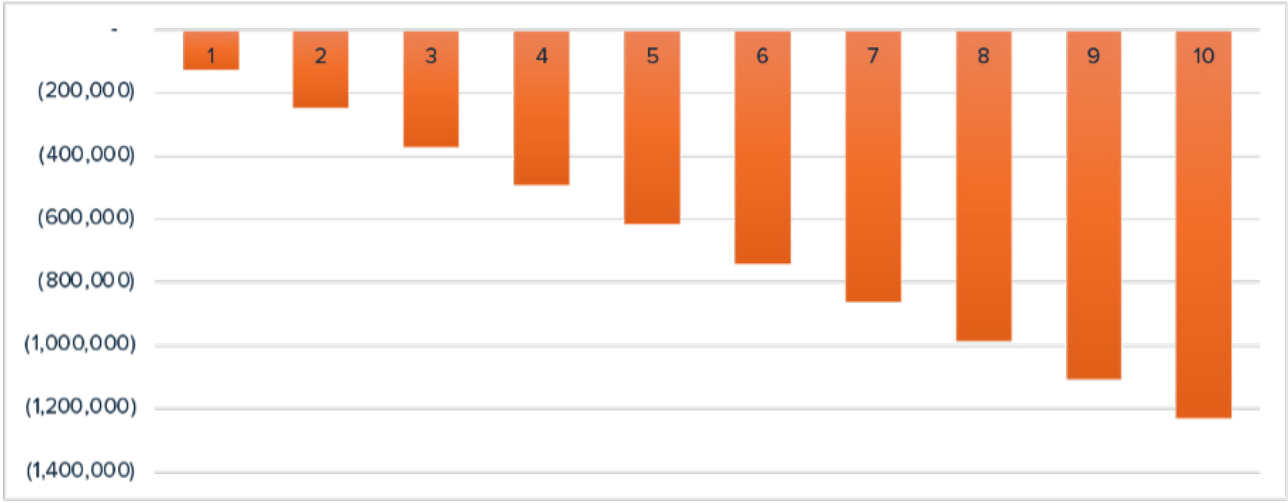
1. The potential law change would result in roughly an 17% increase in Federal taxes on general partners; see calculations later in this Report.
2. See above notes.

The following three tables show long-run estimated potential job losses from the taxation of carried interest as ordinary income.

Private Funds Plus Real Estate: Estimated Potential Long-Run Cumulative Loss in Employment and Annual Tax Revenues Due to Potential Increased Taxes on Carried Interest (in $billions)[3]

	Private Funds Firms (and their portfolio companies)	Real Estate Firms	Totals
Job Losses (millions)	.67	.56	1.23
Loss in Federal Tax Revenues	$10.57	$3.57	$14.14
Less: Estimated revenue gain (from CBO)	.65	.65	1.30
Net Loss in Federal Tax Revenues	$9.92	$2.92	$12.84

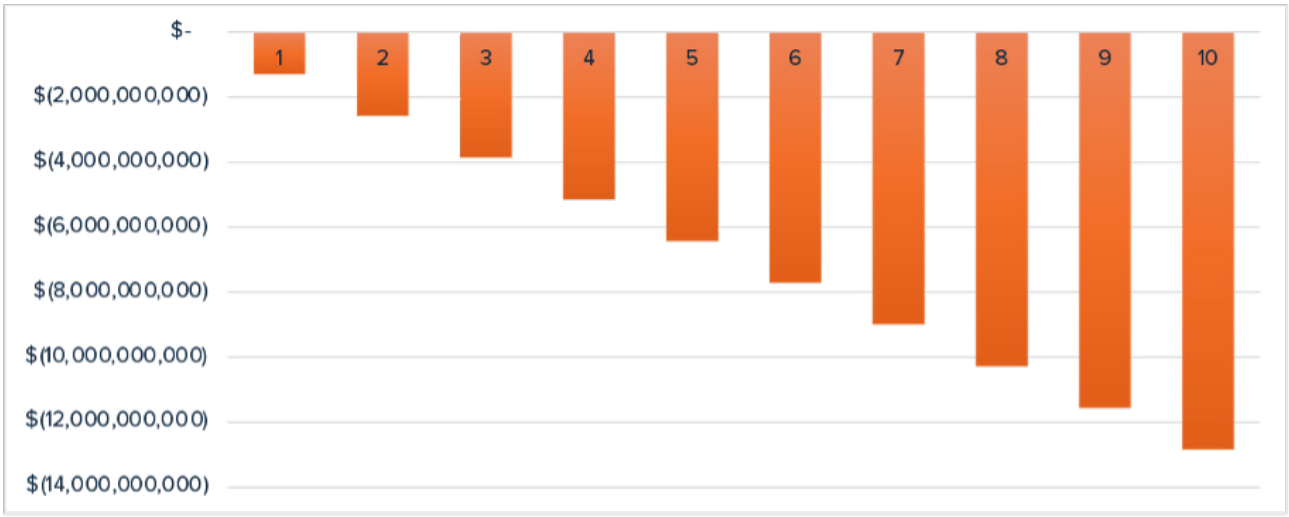
Estimated Potential Cumulative Job Losses: Years 1->10 After Increased Taxes on Carried Interest Enacted[4]



3. Both employment and tax revenue losses are in the 10th year after implementation. Includes effects of PE portfolio companies (from Ernst &Young analysis done for American Investment Council (AIC), 2024) and effects of venture capital portfolio companies. Some calculations are done using IMPLAN. See also footnote 1. Estimated revenue gains are from the Congressional Budget Office (CBO, 2024). Totals may not add due to rounding.

4. The trajectory of such losses is unknown. Private equity and real estate investments turn over on average every 5 years. For conservatism, I estimate that the losses increase proportionately over a ten-year period.

Estimated Potential Annual Federal Tax Revenue Losses in $billions: Years 1->10 After Increased Taxes on Carried Interest Enacted[5]



Any proposed tax increase on carried interest capital gains would significantly impact important American industries. Carried interest is a profit-sharing mechanism that rewards investors for the long-term "sweat equity" investments they make in businesses that are formed as partnerships.[6] Carried interest is used in real estate businesses, the financial services industry, oil and gas ventures, and many other types of business partnerships. The concept is that general partners (or managing members of LLCs) invest sweat equity, money, and expertise in such ventures, along with limited partner investors who invest money solely in the ventures. If the venture is successful, the general partners are entitled to a portion of the net profits from the sale of such ventures, which for private equity is typically 20% only after the limited partner investors have returned their capital plus a typical hurdle rate of return of 8% of investors who invest money solely in the ventures. If the venture is successful, the general partners are entitled to a portion of the net profits from the sale of such ventures, which for private equity is typically 20% only after the limited partner investors have returned their capital plus a typical hurdle rate of return of 8%.

Since the start of the Federal Income Tax in 1913, carried interest capital gains have always been taxed as capital gains income, even though the capital gains rates have varied over time. Carried interest tax treatment is consistent with the tax treatment afforded to other long-term investments in capital assets and is founded on two sound and settled tax policies. The first is that the capital gains policy is designed to reward entrepreneurial risk-taking in addition to capital investment. The second is that partnership profits should be taxed on a "pass-through" basis. As recognized by the Joint Committee on Taxation in its description of the tax treatment of carried interest, "The character of partnership items passes through to the partners, as if the items were realized directly by the partners. Thus, for example, long-term capital gain of the partnership is treated as long-term capital gain in the hands of the partners."

6. The use of partnerships as a form of business which encourages entrepreneurship and risk-taking, and thus economic growth. Albring, Petrova, Simcovic, and Warburton document that partnerships play an important role in driving economic growth and innovation and supporting diverse industries (see "Examining Mid-Size and Large Partnerships' Contributions to the U.S. Economy," working paper, The Real Estate Research Consortium, January 2025).

Moreover, some research argues that taxation of carried interest as ordinary income would generate little or no revenue gain[7] for the government.[8] Moreover, some research argues that taxation of carried interest as ordinary income would generate little or no revenue gain for the government.[9]

In the private funds industry, private equity (PE) firms have played a major role in the development of a broad range of companies that employ more than 13.3 million people across the United States. Private equity managers have invested capital and expertise into critical industries that are essential to maintaining America's competitive advantage. Providing critical guidance and resources to develop emerging technologies such as artificial intelligence, advanced manufacturing, and biotechnology that require significant upfront investments and patient capital to develop. Investors have invested billions in AI data centers, chip manufacturers, and more to fuel the AI revolution and provide the capital to develop new innovative treatments for challenging diseases. These investments often take time to develop and often have a certain degree of uncertainty, making it challenging to raise capital from other investors who expect to see more certainty before investing. In fact, research has found that "firms pursue more influential innovations, as measured by patent citations, in the years following private equity investments."[10] Research also finds that PE firms tend to make significant IT investments in their portfolio firms regarding industry.[11] Research also finds that PE firms tend to make significant IT investments in their portfolio firms, regardless of industry.

All told, PE firms and PE-backed companies contribute over $223 billion in annual federal tax revenues. Moreover, recent research shows that not only do PE-backed companies become more successful, but they continue to be more productive than similar non-PE-backed companies even after PE investors sell them.[12]

Venture capital (VC) firms also have an important impact on the American economy, helping support fledgling companies. Venture capital firms have helped nurture technology firms such as Intel, Apple, Salesforce, Amazon, Alphabet (Google), and Zoom. Venture capital-backed firms employ an estimated 5.3 million people.[13] Venture capital-backed companies account for 41% of total U.S. market capitalization and 62% of U.S. public companies' R&D spending. Among public companies founded within the last fifty years, VC-backed companies account for half in number, three-quarters by value, and more than 92% of R&D spending and patent value. The American VC industry is causally responsible for the rise of

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7. See https://www.cbo.gov/budget-options/2018/54795

8. Utke (2024) argues that: 1.the current tax treatment of carried interest is consistent with the basic principles of the tax system, including principles of equity and fairness; 2. the taxation of carried interest in partnerships is identical to similar arrangements in corporations; 3. the current taxation of carried interest generally results in the U.S. government receiving more revenue than it would in absence of this special allocation; and 4. taxing carried interest as ordinary income at the ordinary tax rates would generate ordinary deductions that may partially or fully offset revenue raised by any tax rate increase. See Steven Utke, "There Is No Carried Interest Loophole", working paper, available at SSRN.com.

9. Ibid.

10. See M. Sorenson, "Private Equity and Long Run Investment: The Case of Innovation" available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1088543

11. See Baik et al (2024), "Private Equity and Digital Transformation" available at https://www.hbs.edu/ris/Publication%20Files/24-070_a59d90c1-b1da-4cf4-8829-f3271b51e9eb.pdf

12. See Lavery et al (2024) "Private Equity Financing and Firm Productivity" available at SSRN.com.

13. https://nvca.org/wp-content/uploads/2021/03/NVCA-2021-Yearbook.pdf

one-fifth of the current largest 300 US public companies, and three-quarters of the largest US VC-backed companies would not have existed or achieved their current scale without an active VC industry.[14]

The real estate industry has also played an important part in the American economy. The leasing industry invests in the majority of commercial, industrial, and residential buildings in the country, and the hotel/motel industry supports hundreds of thousands of jobs. Real estate construction firms will be vital in addressing the shortage of housing and affordable housing in particular; one estimate of this is that there is a 5.5 million underbuilding gap in housing units ($4.4 trillion).[15] The real estate industry collectively supports over 14.1 million jobs.[16]

When we add private equity (PE), venture capital (VC), and taxable real estate partnership firms (plus their suppliers) together and include employment of PE and VC portfolio companies, they account for an estimated 32 million jobs and pay an estimated $376 billion annually in federal taxes.

This study investigates the economic and fiscal impacts of a potential tax increase on carried interest. Applying standard economic theory, the tax increase from treating carried interest as ordinary income may cause up to a 3.94%/2.81% downsizing of the private equity/venture capital industries and up to a 3.98% downsizing in the taxable partnership-based real estate industry, with up to 3.94%/2.81% of the companies normally backed by PE/VC firms potentially failing. This study finds that a tax increase treating carried interest as ordinary income would be so impactful that, if enacted, the country's workforce may be reduced by up to 1.23 million jobs in the long run, and federal tax revenues may drop by up to $1.2 billion in the first year of implementation, increasing to $12.84 billion per year by year 10, if carried interest is taxed as ordinary income. Public pension funds supporting retirees may lose up to $520 million annually (in the long run) since they would need to switch some of their investments into lower-yielding investments. Sensitivity analyses indicate that the federal government could lose money even with a .3% downsizing of private funds and real estate industries.

The increased taxes in potential legislation would have a disincentive effect on labor supply as well as business formation and growth. Although the private funds industry is composed of businesses, such businesses are mostly partnerships or limited liability companies (LLCs), meaning that their taxes are paid by business owners (partners) on their individual tax returns. Thus, increased taxes on carried interest are, in a large sense, a tax on the entrepreneurial efforts of the owners of private equity and venture capital firms who help grow businesses. Similarly, many real estate companies are organized as partnerships or LLCs, meaning an increased tax on carried interest would have a similar disincentive effect.

Private equity has provided significant investments into American businesses. An example is manufacturing, where PEs have provided over $1.4 trillion in funding for over 11,000 companies since 2013 in every state.[17] Manufacturing typically has the largest "multiplier" on local economies/jobs relative to all other industries. Private equity continues to invest in critical U.S. industries, with 2024 investments into industrials of $122 billion.[18] Private equity firms invested $174.9 billion in America's critical technology

15. See https://www.nar.realtor/june-is-national-homeownership-month/housing-supply-and-affordability

16. See subsequent discussion in this paper.

17. See Private Equity Boosts American Manufacturing (American Investment Council, March 2024).

18. Pitchbook data, and https://www.investmentcouncil.org/private-equity-investments-support-american-health-care-covid-19-response/

sector in 2024.[19] Private equity firms have also invested $50.1 billion in the important energy sector in 2024[20] and have invested over $771 billion into the sector since 2008.[21] Other critical PE investments include infrastructure[22] construction and engineering ($7.7 billion in 2024), building products ($4.4. billion in 2024), communications and networking ($4.3 billion in 2024), logistics and supply chain ($3.5 billion in 2024), IT services ($29.1 billion in 2024), materials and resources ($8.4 billion in 2024), oil and gas ($8.5 billion in 2024), as well as artificial intelligence (AI) and life sciences ($81 billion in 2022)[23], as well as artificial intelligence (AI) and life sciences ($81 billion in 2022).[24]

Similarly, venture capital firms and the real estate industry play an important role in the U.S. economy. Venture capital (VC) firms transform basic research into mature products and services, many of which have been transformative. VC firms continue to fund investments in AI start-ups such as Anthropic and OpenAI. Examples of such transformative venture capital-backed companies include the five largest publicly traded companies by market capitalization in the U.S. Apple ($3.68 trillion), Nvidia ($3.54 trillion); Microsoft ($3.15 trillion), Alphabet ($2.36 trillion), and Amazon ($2.36 trillion).[25] ($3.54 trillion); Microsoft ($3.15 trillion), Alphabet ($2.36 trillion), and Amazon ($2.36 trillion).[26]

The real estate leasing industry invests in the majority of commercial, industrial, and residential buildings in the country, and the hotel/motel industry supports hundreds of thousands of jobs, including the tourism industry. Real estate construction firms will be vital in the development of affordable housing. Overall, the U.S. real estate industry has a significant impact and is estimated to support over 14.1 million jobs through operations of existing retail, office, and industrial/warehouse buildings, new construction, and hotel operations and construction.[27] The total value of America's commercial real estate (at the end of 2023, including multifamily residential) is estimated to be $22.5 trillion[28], which is nearly 44% of the market capitalization of all U.S. publicly traded companies. Real estate continues to invest in affordable housing, including a recent $2.5 billion affordable housing fund raised by Vistria Group.[29]

19. US PE Breakdown (Pitchbook, 2024).
20. Ibid.
21. See www.investmentcouncil.org/wp-content/uploads/2022/03/aic-life-sciences-report2.pdf
22. https://www.investmentcouncil.org/wp-content/uploads/aic_renewable_energy.pdf
23. Building America's Infrastructure: How Private Equity Improves Local Communities (American Investment Council, December 2024).
24. Ibid.
25. Source: The Motley Fool (market caps as of January 6, 2025).
26. Ibid.
27. Estimates are from the Real Estate Round Table reported at www.rer.org/wp-content/uploads/CRE-By-The-Numbers-10-2-2024.pdf. Note that this figure includes employment created by both companies organized as partnerships/LLCs and corporations. While the vast majority of real estate firms are organized as partnerships/LLCs, to the extent that some are corporations (and not affected by carried interest) this number would be reduced accordingly. Note that IRS Statistics of Income data does not allow determination of the percent of such firms which are corporations.
28. Commercial Real Estate by the Numbers—Facts and Stats. Real Estate RoundTable (2024). Available at https://www.rer.org/resources/
29. See https://www.nytimes.com/2025/03/31/business/dealbook/real-estate-fund-raises-2-5-billion-for-affordable-housing.html.

Economic Contributions of the Private Funds Industry

EMPLOYMENT AND TAX REVENUE IMPACTS OF PRIVATE EQUITY FUNDS

PE firms and their portfolio companies employ 13.3 million people. **Exhibit 1** shows the economic footprints of these companies.

EXHIBIT 1

Estimated Employment, Income, and Output Effects of Private Equity Firms and Companies Owned by Private Equity Firms in the U.S. (dollar values in trillions)[30]

Employment	Labor Income	GDP
13.3 million	$1.1	$2.0

Labor Income is wages, and GDP is Gross Domestic Product (private equity's contribution to the production of all goods and services produced in the United States).

These companies contribute an estimated annual total federal tax revenue of $223 billion.[31] **There are thousands of PE-backed companies from a very broad cross-section of industries.**[32] Total investments made in 2024 exceed $838.5 billion.[33] As shown in **Appendix A**, such companies are scattered among all 50 states exceed $838.5 billion.[34] As shown in **Appendix A**, such companies are scattered among all 50 states.

The private equity industry accounts for a significant amount of Federal taxes paid. Such taxes include income (individual and corporate for other industries), employment taxes, excise taxes, import taxes, and numerous other taxes and fees. **Exhibit 2** shows the estimated annual taxes paid by this industry (including PE portfolio companies). All told, the industry contributes over $223 billion annually to Federal tax revenues. For comparison purposes, the Exhibit also shows state/local taxes paid by PE firms and their portfolio companies.

30. Source: Ernst &Young (EY) analysis done for American Investment Council (AIC), 2024.

31. See Ernst & Young analysis, ibid.

32. Employment by broad industry group (as per cents) made in 2022 is as follows (see Ernst & Young analysis, ibid.): personal services (52%); business services (12%); transportation and warehousing (11%); manufacturing (9%); wholesale trade (5%); information (3%); and others (8%).

33. Source: *Pitchbook*, 2024.

34. Ibid.

EXHIBIT 2

Estimated Annual Federal and State/local Taxes Generated by the Private Equity Industry (in $billions)[35]

	US private equity sector			Suppliers of US private equity	Related consumer spending	Total
	Business taxes	Employee taxes	Total			
Federal taxes	**$79**	**$144**	**$223**	**$143**	**$155**	**$521**
Individual income taxes	14	100	113	73	79	265
Payroll taxes	39	39	78	50	54	182
Corporate income taxes	24	0	24	16	17	57
Excise taxes	1	3	4	3	3	10
Customs duties and fees	1	3	3	2	2	8
State and local taxes	**$46**	**$68**	**$114**	**$73**	**$79**	**$265**
Property taxes	17	14	31	20	22	73
Sales taxes	11	16	27	17	19	63
Individual income taxes	0	29	29	18	19	66
Excise, license, and other taxes	10	9	19	12	14	45
Corporate income taxes	8	0	8	5	5	17
Total taxes	**$125**	**$212**	**$337**	**$216**	**$233**	**$786**

DATA ON INVESTORS IN PRIVATE EQUITY FUNDS (INCLUDING PENSIONS)

Numerous investors have stakes in such portfolio companies as limited partners (investors) in the PE funds that own these companies. In 2023, total pension investments in PE were $327 billion[36]. Such stakes have increased over time; as of 2024, total pension ownership of PE funds totaled 16% of their investments, higher than the 11% in 2015. **Exhibit 3** shows the types of investors and their relative investments in PEs.

EXHIBIT 3

Ownership as % of Total Investments, Investors in PE Funds as of December 2024[37]

Investor Type	2015	2024
Public Pension Funds	6%	9%
Sovereign Wealth Funds	8%	13%
Insurance Companies	2%	4%

35. Direct revenue estimates from EY analysis, ibid.

36. Institutional Allocation Study 2024, Preqin. Public pensions invested 9% of their $2.4 trillion of AUM (or $216b), and private pensions invested 7% of $1.59 trillion (or $111b) of AUM.

37. Direct revenue estimates from EY analysis, ibid.

Private Sector Pension Funds	5%	7%
Endowment Plans	11%	7%
Foundations	9%	14%
Wealth Managers	11%	11%
Family Offices	17%	24%

PE funds typically outperform other investments in terms of rates of return. Although there is incomplete public data on PE investors' alternative investments, there is such data for public pension funds. Over the last 24 years (2000-2024), such funds have earned a median annualized 10.7% net of fee return on their PE investments.[38] This is 4.1% higher than the 6.6% average rates of return on public equity over the same decade.[39] Since historically, returns on private equity investments substantially exceed those of investments in public markets, fixed income, and other investments, *PE funds contribute significantly to the well-being of retirees.*

As noted later, increasing the federal tax rate on carried interest capital gains could result in a downsizing of the PE industry (as well as PE portfolio companies) by up to 3.94% (if carried interest is treated as ordinary income). Here, the potential annual loss to retirees (in the long run) could be $520 million.[40]

EMPLOYMENT AND TAX IMPACTS OF VENTURE CAPITAL FIRMS

Since venture capital (VC) funds, like private equity funds, typically hold portfolio companies for more than three years,[41] the elimination of capital gains treatment for carried interest applies to VC firms as much as it would to PE firms.[42] **Exhibit 5** shows the employment effect of VC funds. When we add VC firm direct employment (for the 3417 US VC firms), with the employment of VC portfolio companies, this industry supports over 5.3 million jobs at VC firms), and with the employment of VC portfolio companies, this industry supports over 5.3 million jobs.

38. Long Term Private Equity Performance 2000-2024 (Cliffwater) available at https://cliffwater.com/ResourceArticle/longterm-private-equity-performance-20002024?docId=26043

39. Ibid.

40. Since there is at least $327 billions of pension funds' money in PE, this implies that as much as $13.4 billion (or $327 billion*(4.1%)) could be lost aggregate returns for pension funds if these pensions instead put all of their money in non-PE investments such as public equity. Here, the loss would be 3.94% of that amount (the downsizing amount for PE from the tax law change) or $.52 billion. As noted later in this Report, pensions also invest significantly in real estate, but the potential loss in pensioners' incomes due to downsizing of the real estate industry (due to the recharacterization of carried interest capital gains) is not estimated.

41. VC firms also deploy capital in multiple financing rounds (Series A/B/C etc.), so a three-year hold captures a number of financing rounds for companies backed by VCs who may have been in the startup for many years.

42. Although not analyzed further in this Report, proposed legislation could have a negative effect on hedge funds as well. Although hedge funds investments are usually held less than three years, a reclassification of all carried interest to ordinary income status would increase taxes on that industry for any investment held longer than one year.

EXHIBIT 4

Estimated Employment, Income, and Output Effects of Venture Capital Firms Plus Their Portfolio Companies in the U.S. (dollar values in $millions)[43]

Employment	Labor Income	GDP
5.3 million	$1.73	$3.27

Exhibit 5 shows total employment by state for VC firms and their portfolios in thousands of jobs.

EXHIBIT 5

Estimated Direct Employment in Thousands for Venture Capital Firms Plus Their Portfolio Companies in U.S.[44]

State	Jobs	State	Jobs
Alaska	5,717	Mississippi	17,876
Alabama	40,724	Montana	5,825
Arkansas	7,407	North Carolina	153,780
Arizona	64,110	North Dakota	6,630
California	1,221,772	Nebraska	13,976
Colorado	118,197	New Hampshire	26,274
Connecticut	59,295	New Jersey	167,564
District of Columbia	24,883	New Mexico	18,225
Delaware	23,395	Nevada	26,525
Florida	187,311	New York	396,109
Georgia	144,054	Ohio	142,094
Hawaii	8,027	Oklahoma	20,424
Iowa	16,122	Oregon	51,883
Idaho	9,131	Pennsylvania	183,241
Illinois	274,100	Puerto Rico	12,617
Indiana	46,337	Rhode Island	17,560
Kansas	22,421	South Carolina	55,392
Kentucky	31,712	South Dakota	2,384
Louisiana	29,666	Tennessee	87,066
Massachusetts	277,799	Texas	456,455

43. VC portfolio company direct employment of 5,306,730 from NVCA (supra). All other figures estimated via IMPLAN Direct employment by portfolio companies uses 2022 data (most recent from NVCA) and may understate 2024 employment.

44. See above footnote for data descriptions.

Maryland	109,609	Utah	74,979
Maine	12,035	Virginia	126,041
Michigan	82,126	Virgin Islands	35
Minnesota	68,527	Vermont	4,903
Missouri	58,484	Washington	240,175

When we add PE and VC funds together, as well as PE and VC portfolio companies, we see that the private funds industry accounts for an estimated 18.6 million jobs and pays an estimated $2.83 trillion in wages annually, as shown below in **Exhibit 6.**

EXHIBIT 6

Estimated Employment, Income, and Output Effects of Private Funds* Firms in the U.S. (dollar values in trillions)

Employment	Labor Income	GDP
18.6 million	$2.83	$7.9

*Includes private equity firms, venture capital firms, and their portfolio companies

Exhibit 7 shows Federal taxes paid by venture capital firms and their portfolio companies. We see that these firms contributed an estimated $63.78 billion in such taxes.

EXHIBIT 7

Estimated Annual Federal Taxes and Fees Generated by Venture Capital Firms, Including Portfolio Companies (in $billions[45])

Description	Employee Compensation	Proprietor Income	Tax on Production and Imports	Households	Corporations
Totals	$32.17	$1.65	$1.65	$23.76	$3.67
Total Federal Tax					$63.78

45. Calculations done using IMPLAN. Employee compensation and proprietor income includes social security taxes, Production and income includes excise taxes, customs and duties, and other miscellaneous taxes and fees. Households includes personal income taxes and other taxes/fees on individuals. Corporations includes corporate income taxes. Note that impact may be understated since based on NVCA employment data is from 2022.

OTHER ECONOMIC IMPACTS: PRIVATE EQUITY FIRMS[46]

Private equity (PE) firms invest in a number of companies via their funds. Such investments typically last for a number of years, during which time the PE fund aims to grow and strengthen the acquired company and make it more profitable for its investors. According to Pitchbook data, U.S. PE funds invested $9.4 trillion in U.S. companies over the 2008-2024 period. As noted previously, these companies contributed over 13.3 million jobs to the U.S. economy. PE capital is invested throughout the country, including in each state and congressional district. This capital, along with PE's proven ability to grow portfolio companies, makes private equity an important partner to thousands of companies around the country that are seeking to expand, develop new products, and compete in an increasingly complex and competitive environment. As the Trump Administration seeks to encourage the reshoring of American manufacturing, private equity firms with their capital and expertise will be important partners. In fact, PE has already invested considerable capital to help thousands of manufacturing firms throughout the country, in some cases transforming and restructuring the business after years of decline. Private capital investments in life sciences have helped to develop lifesaving innovative medicines. Like private equity, patient capital has the expertise and risk tolerance to see these innovative technologies through the long process of bringing new medications to the market; private equity firms, with their capital and expertise, will be important partners. In fact, PE has already invested considerable capital to help thousands of manufacturing firms throughout the country, in some cases transforming and restructuring the business after years of decline. Private capital investments in life sciences have helped to develop lifesaving innovative medicines. Patient capital, like private equity, has the expertise and risk tolerance to see these innovative technologies through the long process of bringing new medications to the market.

Exhibit 8 shows some of the more prominent PE-backed U.S. firms: Briggs and Stratton, HHI Group Holdings, Precipart, Primus Aerospace, Dalton Ag Products, Concept AgriTek, Melinta Therapeutics, Anthos Therapeutics, Resilience, Velocity Clinical Research.

EXHIBIT 8

Examples of U.S. PE-Backed Businesses

Private equity continues to invest in critical U.S. industries, with 2024 investments into technology ($174 billion), industrials ($122 billion), and energy ($50 billion).[47]

46. Sources include Pitchbook (various issues) and industry representatives.

47. Pitchbook data, and https://www.investmentcouncil.org/private-equity-investments-support-american-health-care-covid-19-response/

OTHER ECONOMIC IMPACTS: VENTURE CAPITAL FIRMS[48]

Venture capital (VC) firms develop concepts from basic research into mature products and services, many of which have been transformative. As noted previously, examples of such transformative venture capital-backed companies include the five largest publicly traded companies by market capitalization in the U.S.: Apple ($3.68 trillion), Nvidia ($3.54 trillion); Microsoft ($3.15 trillion), Alphabet ($2.36 trillion), and Amazon ($2.36 trillion).

VCs support new ideas that could not be financed with traditional debt or equity issuance, and which often threaten established products and services. Venture capital-supported companies typically require five to eight years to reach maturity. Until that time, there were relatively low cash flows compared to their values. Thus, venture capital is a risky and illiquid long-term investment.

Venture capital investments are present in all states. **Exhibit 9** shows assets under management (AUM) for venture capital companies from 2014 through 2024 (values in $millions). Such investments have steadily increased over time.

EXHIBIT 9

Venture Capital Investments/(AUM) by State and Year, 2014-2024[49] ($M)

	2014	2016	2018	2020	2022	2024
Alabama	139.09	152.81	161.38	174.80	231.53	217.41
Alaska	2.16	2.36	3.09	123.10	138.75	125.30
Arizona	569.88	687.49	899.83	1,317.25	1,770.25	1,594.32
Arkansas	0.47	156.61	183.29	252.72	301.91	280.69
California	186,155.30	237,115.80	307,879.62	475,467.75	679,327.30	713,836.97
Colorado	3,703.54	4,247.94	5,601.46	7,135.67	10,727.41	9,863.87
Connecticut	7,946.55	6,459.35	8,334.52	9,761.64	15,813.55	14,062.07
Delaware	140.54	198.59	211.06	412.92	1,306.00	2,081.03
District of Columbia	3,780.69	5,018.79	5,238.83	8,794.23	12,362.81	11,623.30
Florida	2,750.91	3,119.44	4,438.70	13,833.10	39,895.45	38,526.81
Georgia	1,835.12	1,768.19	1,950.31	3,589.24	6,929.03	7,376.37
Hawaii	23.77	22.72	24.80	469.21	1,266.76	1,737.01
Idaho	397.78	396.69	264.06	216.32	194.85	300.26
Illinois	7,957.60	10,613.99	14,048.42	23,226.17	32,873.70	35,066.32
Indiana	795.34	919.41	1,051.23	1,128.67	1,535.26	1,483.92
Iowa	39.65	83.81	217.63	323.19	673.75	644.51
Kansas	4.21	4.61	57.77	136.84	197.35	177.81

48. See NVCA 2024 Yearbook.

49. See NVCA 2024 Yearbook.

Kentucky	345.64	338.36	221.50	234.78	129.12	205.98
Louisiana	232.42	196.71	198.74	305.59	311.89	363.60
Maine	251.07	250.06	264.04	286.20	307.09	332.55
Maryland	2,288.13	2,296.41	2,154.32	2,716.84	5,862.08	8,967.81
Massachusetts	38,025.62	44,554.91	52,634.34	82,352.87	112,567.79	115,100.99
Michigan	1,142.67	1,827.64	2,260.97	2,917.96	4,044.40	4,290.49
Minnesota	2,590.12	2,692.31	2,454.66	3,570.69	5,123.97	5,103.86
Mississippi	2.34	2.93	3.16	4.10	3.87	3.01
Missouri	1,879.09	1,746.40	2,300.20	3,349.83	3,873.01	3,805.58
Montana	4.22	25.85	71.28	186.42	480.63	577.91
Nebraska	88.61	114.41	117.10	139.10	186.66	172.67
Nevada	18.57	57.19	623.53	1,020.27	1,745.97	1,647.47
New Hampshire	91.35	108.60	306.85	899.29	2,384.15	2,274.89
New Jersey	4,932.58	4,209.18	3,209.59	2,886.89	4,655.58	4,949.89
New Mexico	80.45	71.96	98.63	238.61	291.90	262.89
New York	41,701.03	55,210.01	72,889.17	127,430.13	209,210.21	215,360.62
North Carolina	1,271.38	1,568.11	1,751.27	2,830.04	4,432.98	4,785.13
North Dakota	3.28	3.60	6.77	10.12	11.95	8.42
Ohio	1,841.33	2,135.99	2,465.96	4,432.09	5,691.38	4,862.58
Oklahoma	86.16	85.60	77.03	98.90	145.23	254.95
Oregon	261.25	440.42	573.12	888.32	1,353.70	1,486.22
Pennsylvania	3,905.69	3,624.29	3,186.30	3,441.88	5,037.57	5,539.97
Puerto Rico				25.40	138.69	126.89
Rhode Island	1.22	1.62	7.90	5.11	3.25	2.34
South Carolina	295.83	262.05	213.74	284.46	271.37	346.15
South Dakota	63.22	65.27	52.32	50.84	46.55	46.66
Tennessee	819.24	1,038.76	1,340.05	2,041.83	3,335.53	3,397.47
Texas	7,929.23	8,398.28	11,749.36	18,831.17	31,594.71	30,195.41
Utah	1,411.38	1,955.01	2,084.76	3,358.40	5,810.59	5,937.70
Vermont	120.03	129.15	215.73	303.07	372.61	321.65
Virgin Islands		25.75	30.10	38.00	49.28	45.88
Virginia	4,282.32	4,520.88	5,605.87	6,887.35	12,175.46	14,295.41
Washington	5,827.70	7,170.10	10,628.42	16,970.50	24,759.50	24,879.65
West Virginia				21.04	37.35	31.46
Wisconsin	460.79	495.88	818.78	1,079.47	1,769.98	1,938.78
Wyoming	170.79	532.71	974.34	2,014.90	4,785.46	4,910.85

Venture capital-funded firms span a variety of industries. In 2024, investors contributed significantly to such vital U.S. industries as software and IT hardware ($98.4 billion), energy start-ups ($6.1 billion), and pharma and biotech ($25.3 billion).

Economic Impact of the Real Estate Industry[50]

EMPLOYMENT AND TAX REVENUE IMPACTS ON THE REAL ESTATE INDUSTRY

Overall, the U.S. real estate industry has a significant impact and is estimated to support over 14.1 million jobs. The total value of America's commercial real estate (at the end of 2023, including multifamily residential) is estimated to be $22.5 trillion[51], which is nearly 44% of the market capitalization of all U.S. publicly traded companies.[52] In terms of GDP, operations of existing retail, office, and industrial/warehouse buildings, combined with new commercial construction, contributed an estimated $2.5 trillion to GDP and $881.4 billion in personal earnings in 2023.[53] The multifamily industry, which provides shelter to an estimated 109 million residential renters[54] with an estimated market value of $3.8 trillion (more than the market value of Amazon and Google combined)[55], contributes significantly to the economy through apartment construction, improvements, and operational expenditures.[56] The operation of America's hotels, along with hotel construction and capital investment, also contributes significantly to the economy.[57]

This report focuses on companies in the industry that would be subject to the recharacterization of carried interest capital gains: companies that are organized as partnerships or LLCs and are taxable (i.e., not REITS or government-owned). Such companies can be broadly defined in three parts: real estate construction, real estate leasing, and hotels/motels.[58]

50. All analyses in this section of the Report includes only data on (non-REIT) real estate firms organized as partnerships or LLCs, since the owners of such entities would be subject to carried interest and capital gains tax treatments.

51. *Commercial Real Estate by the Numbers—Facts and Stats*. Real Estate RoundTable (2024). Available at https://www.rer.org/resources/

52. Ibid., and https://siblisresearch.com/data/us-stock-market-value/

53. https://www.naiop.org/research-and-publications/research-reports/reports/economic-impacts-of-commercial-real-estate-2023-us-edition/ , and calculations using IMPLAN.

54. Estimates based on Census data and projections from Self Inc (see https://www.self.inc/info/rent-statistics/#:~:text=There%20were%20over%20102%20million,to%20the%20official%202021%20figures.)

55. https://siblisresearch.com/data/us-stock-market-value/

56. Renter statistic through 2019, from Harvard University, Joint Center for Housing Studies, State of the Nation's Housing 2020 at p. 29).

57. Estimated to generate an additional $314 billion in direct economic output; see Oxford Economics, Economic Impact of the U.S. Hotel Industry (Aug. 2019). https://www.ahla.com/sites/default/files/oxford2019.pdf

58. The above does not include indirect effects which consider all the vendors which the industry uses directly; here, realtors (and their agents), commercial real estate lenders, janitorial and maintenance services, insurance brokers (and their agents), landscape maintenance, architects, engineers, interior designers, protective services, appraisers, repair services, etc.

Exhibit 10 shows the estimated economic footprints of real estate companies that are organized as taxable partnerships and LLCs (thus, they would be subject to the proposed recharacterization of carried interest capital gains).[59] The industry comprises construction, real estate leasing, and accommodations (hotels and motels). We see that this industry contributes an estimated 14.1 million jobs, which could be affected by changes in the tax provisions for carried interest.

EXHIBIT 10

Estimated Employment, Income, and Output Effects of Real Estate Industry Partnerships and LLCs in the U.S. (dollar values in billions)[60]

Employment	Labor Income	GDP
14.1 million	$807.12	$201.76

There are over 2.4 million real estate partnerships and LLCs[61], and such companies are scattered among all 50 states and numerous congressional districts.

The partnership-based real estate industry accounts for a significant amount of Federal taxes paid. Such taxes include income (individual and corporate for other industries), employment taxes, excise taxes, import taxes, and numerous other taxes and fees. The following Exhibits show these taxes when we include both the direct and indirect effects of the industry. **Exhibit 11** shows estimated annual Federal taxes; all told, the industry contributes an estimated $89.76 billion annually to Federal tax revenues.

EXHIBIT 11

Estimated Annual Federal Taxes and Fees Generated by Taxable Real Estate Partnerships (in $billions)[62]

Description	Employee Compensation	Proprietor Income	Tax on Production and Imports	Households	Corporations
Totals	$35.49	$2.73	$ 7.26	$ 28.72	$ 15.56
Total Federal Tax					$89.76

59. Since REITs are tax exempt and not subject to carried interest provisions, they are excluded from this Report's analysis.

60. Estimates are from the Real Estate Round Table reported at www.rer.org/wp-content/uploads/CRE-By-The-Numbers-10-2-2024.pdf and IMPLAN. Note that this figure includes employment created by both companies organized as partnerships/LLCs and corporations. While the vast majority of real estate firms are organized as partnerships/LLCs, to the extent that some are corporations (and not affected by carried interest) this number would be reduced accordingly. IRS Statistics of Income data does not allow determination of the percent of such firms which are corporations.

61. IRS, SOI Tax Stats - Partnership Statistics by Sector or Industry.

62. Calculations using IMPLAN.

OTHER ECONOMIC IMPACTS: REAL ESTATE FIRMS

Real estate construction also contributes to the housing supply and affordable housing development (including low-income housing). This is a critical industry, as estimates range from up to 5.5 million units in housing shortage.[63] The real estate leasing industry contributes to the economy both in the residential and the commercial/industrial sector. The commercial/industrial rental sector provides places of work for American businesses, but the industry is under economic pressure due to workplace shifts to at-home offices. Residential rentals provide housing for millions of Americans, but factors beyond the industry's control (lack of land to build units, etc.) and other costs have driven the costs of affordable housing up.[64] Recent reports show that investment firm Vistria Group recently raised more than $2.5 billion in investments in affordable housing.[65]

The size and overall importance of the real estate industry are significant. The total value of America's commercial real estate (at the end of 2023, including multifamily residential) is estimated at $22.5 trillion.[66]

63. See "Where Do the Estimates of a Housing Shortage Come From?" *Brookings* (2024).

64. See "The Costs of Affordable Housing: Does It Pencil Out?" *Urban Institute*, available at https://apps.urban.org/features/cost-of-affordable-housing/

65. https://www.nytimes.com/2025/03/31/business/dealbook/real-estate-fund-raises-2-5-billion-for-affordable-housing.html#:~:text=The%20investment%20firm%20Vistria%20Group,in%20more%20than%20a%20decade.

66. See https://www.stlouisfed.org/on-the-economy/2024/may/commercial-real-estate-in-focus

Economic Impact of Increased Taxes on Carried Interest

Disincentive Effects and Overall Economic Effects:

DISINCENTIVE EFFECTS

General Discussion

Any potential change to the taxation of carried interest would change Internal Revenue Code section 1061, which generally requires a three-year holding period for long-term capital gains treatment of gains attributable to a carried interest.

Carried interest is a profit-sharing mechanism that rewards investors for the long-term "sweat equity" investments they make in businesses. Carried interest is used in real estate businesses, the financial services industry, oil and gas ventures, and many other types of business partnerships. The concept is that general partners (or managing members of LLCs) invest sweat equity, money, and expertise in such ventures, along with limited partner investors who invest money in the ventures. If the venture is successful, the general partners are entitled to a portion of the net profits from the sale of such ventures.

In the private funds industry, companies that have carried an interest typically are in the private equity and venture capital fields. In this structure, the general partners or managing members of a partnership actively lead the fund's operations, while limited partners are passive investors. General partners or managing members are compensated for their services through a portion of the annual management fee that limited partners provide to finance the operations of the fund (similar to a salary as payment for services rendered and taxed at ordinary income rates), often at 2% of assets under management.[67] If the fund succeeds, the General Partners retain a share of profits, not a fee. The profits interest is typically set at 20% of gains earned by the fund once invested capital is returned. In private equity funds, the fund must also exceed a "hurdle rate" of return for limited partner investors (typically 8%) for general partners to receive their carried interest. Limited partners receive the other 80% of the remaining profits. The limited and general partners ' interests are aligned because general partners do not get paid unless the investment is successful.

For federal tax purposes, since the start of the Federal Income Tax in 1913, carried interest capital gains have always been taxed as capital gains income, and the capital gains rates have varied over time. Indeed, carried interest tax treatment is consistent with the tax treatment afforded to other long-term investments in capital assets and is founded on two sound and settled tax policies. The first is that capital gains policy is designed to reward entrepreneurial risk-taking and investment. The second is that partnership profits should be taxed on a "pass-through" basis. The Joint Committee on Taxation, in its

67. Typically, it is 2% of committed capital and then it transitions into 2% of invested capital over the life of a fund.

description of the tax treatment of carried interest, stated, "The character of partnership items passes through to the partners as if the items were realized directly by the partners. Thus, for example, long-term capital gain of the partnership is treated as long-term capital gain in the hands of the partners."[68] Starting in 2018, however, federal tax law imposed differential treatment for some long-term carried interest capital gains by changing the time window it takes for a long-term carried interest capital gain to be realized. The new law extended the window from one year to three years. Under current tax law, a general partner's carried interest capital gains are only taxed at the lower long-term rates after three years. A general partner's carried interest capital gains on an asset held for less than three years are short-term capital gains, taxed at the same rates as ordinary income. Limited partners' share of profits, on the other hand, can be fully taxed like all other long-term capital gains at lower rates after one year.[69]

Disincentives—Taxing Carried Interest as Ordinary Income

The most recent estimate of Federal Tax revenues raised from a recharacterization of carried interest capital gains to ordinary income would be an average of $1.3 billion (annually) over the next ten years.[70] GPs could locate their funds overseas. More importantly, there is the incentive for a GP to switch to another industry with higher after-tax compensation[71], and since the GP is the primary driver of a PE or VC fund, less (or smaller) funds might be the result. Investors put money into funds based on the skill/reputation of general partners, if such skilled partners are replaced by less skilled ones (agreeable to the lower post-tax outcomes), fewer investors would be forthcoming as they see lower returns to their investments. Thus, the industry would decline, and portfolio firms would get less (or possibly no) funding.

This is particularly relevant in smaller PE funds, where a recent survey indicated that PE firms believed they would lose talented PE fund managers (general partners) and that general partners would reduce their investments (personal investments and the number of companies invested in).[72] The survey results also indicated that if talented PE managers left, less qualified managers would take their places, resulting in less outside funding from limited partner investors since they would perceive that success would be reduced under less talented managers. The net result would be decreased economic activity as fewer companies would be able to find outside financing.

Changing the tax structure may have a strong impact on investments, as well. If the holding period is no longer a criterion for tax rates (i.e., investing in a portfolio company for less than three years would have the same tax impact as holding for longer than three years), PE and VC managers may switch to shorter investments or move to more fee-based models. In doing so, they may also be incentivized to avoid taking calculated risks, such as investing in technology companies, in favor of investing in more

68. See https://www.cbo.gov/budget-options/60946

69. Note that limited partners that are non-taxable entities, for example pension plans, endowments and charitable foundations, are not taxed on these gains.

70. The most recent estimate of revenue gains to the government from the Congressional Budget Office (CBO) as of December 2024 (see https://www.cbo.gov/budget-options/60946) estimated that Federal Tax revenues from a recharacterization of carried interest capital gains would be $500 million in 2025. In later years, the estimated revenue would be $1.1 billion (2026), and increasing each year, for an average annual revenue gain of $1.3 billion in 2025-2034.

71. See Barrios, John Manuel, and Yael V. Hochberg. "Taxing carried interest as ordinary income and the potential impact on new venture fund formation." Available at SSRN 3939267 (2021), who illustrate how a fund manager would likely return to a job in finance instead of facing higher taxes in a fund.

72. The Small Business Investor Alliance (SBIA) is a trade group which represents smaller PE funds. These funds invest primarily in American smaller businesses. The survey was sent by the SBIA to its members and results were reported to me.

traditional companies that are poorly managed with high costs.

The following simple example illustrates the potential impact of increased taxes on risky investments. Consider an example where the taxpayer chooses between two investments—a risky investment with a pre-tax expected return of 60 percent and a less risky investment with an expected return of 25 percent. Assuming the earnings from both investments would be taxed at the capital gains rate of 23.8%. Here, a GP would be comparing an expected after-tax return of 45.72 percent (60% * [1 — 0.238]) for the riskier investment versus 19.05 percent (25% * [1-.238] for the less risky investment, resulting in a 26.67 percentage point difference in after-tax return.

If the law increases the rate to the top ordinary income level, the difference in expected after-tax returns for the two investments will decrease. Here, the after-tax return on the riskier investment would decrease to 35.52 percent (60% * [1 — 0.408]), while the after-tax return on the less risky investment would decrease to 14.05% (25% * [1 - 0.438]). Thus, the difference between the after-tax expected returns from the two investment options would decrease to 21.47 percentage points. Because the expected pre-tax returns of the two investment options have not changed with the decrease in tax rate, so the less risky investment will be more attractive to investors than it was previously.[73]

Whether the result is moving to shorter-term or less risky projects, the result is lower profitability. The net results of the above would be lowered growth and employment.

A potentially stronger effect may occur for venture capital firms. Here, all of the companies receiving investments have relatively high risk. Increasing carried interest capital gains tax rates to ordinary income tax rates removes the existing tax incentive alignment between entrepreneurs, VCs, and limited partner investors to make longer-term high-risk investments. Thus, VC firms may switch to less risky investments or rely on higher fees to offset risk premiums. In particular, academic research has found that skill level and effort by VC fund managers are very important in avoiding failure risk[74]. Since riskier investments must, by definition, have a higher potential payoff to be attractive, this shift would lower profitability and job growth and foster less innovation in the U.S. economy, particularly in the high-tech and biotech industries.

Below, I discuss a potential change to the treatment of carried interest taxation and the resultant incentive effects.

Taxing carried interest as ordinary income
Labor Elasticity Effect

73. For experimental market evidence of this, see my own research: Swenson, Charles W. "Tax Regimes and the Demand for Risky Assets: Some Experimental Market Evidence." Journal of the American Taxation Association 11.1 (1989).

74. See Proksch, Dorian, et al. "Risk management in the venture capital industry: Managing risk in portfolio companies." The Journal of Entrepreneurial Finance (JEF) 18.2 (2016): 1-33.

This would increase tax rates [75] on approximately 90%[76] of the general partner's income. To be conservative, I use the lowest labor elasticity from the above discussion or 31%.[77] Recalling that the potential tax rate increase is 17%, I estimate a potential 4.74% (or 31% *17%*90%)[78] negative response by financial funds partners. Since such partners take their business activities with them, there is also a loss in business activity in this sector. The financial services sector is a "footloose" industry: firms can move quickly (facilities are typically leased, not owned), and their activities can be done almost anywhere. Since general partners generally share 20% of overall PE and VC profits, this implies a .94% reduction in overall PE and VC investments and pre-tax income (or 4.74%*20%). Since general partners' profit-sharing percentage is generally also 20% for real estate companies, we estimate a .94% overall reduction in investments and pre-tax income.

Risky Project Elasticity Effect

The above estimates do not specifically account for additional downsizing due to fewer higher-risk investments or a switch to shorter-term investments. As mentioned above, ordinary income treatment would cause PE managers to be indifferent to shorter versus longer-term investments from a tax perspective. Also, longer-term investments often require more attention/effort by a PE manager. Because of the labor elasticity effect mentioned above, PE managers would be less inclined to make such longer-term investments. Also, longer-term projects entail more risk, and as mentioned above, increasing the tax rate on investments tends to discourage risk-taking, ceteris paribus. Avoiding such longer-term projects generally decreases returns to the PE; a well-known concept in finance is that if a project is riskier, the "upside" potential of the project must be higher than normal to induce someone to invest in the project (relative to a safer project with less "upside"). The opposite also applies; if the "upside" is reduced, there is less incentive to invest in riskier projects. When the tax rate on carried interest is increased significantly, the "upside" is reduced, making such riskier investments less attractive. Since the proposed law change would not discriminate (tax-wise) between longer and shorter investments, these investors may avoid longer run/riskier projects and decrease total investments.

While I do not have access to actual rates of return on shorter versus long-term investments, I can proxy the level of the riskiest projects that could be avoided.

Since PE and real estate deals are significantly debt-financed[79], one way to look at riskiness is to examine how banks and other lenders rate such debt. Riskier projects generally cause lenders to charge a higher interest rate (debt yield). Such higher interest payments tend to raise the risk of default. The inherent riskiness of the investment also increases such default. Without known metrics for the riskiness of all

75. The Federal rate on carried interest would go from 23.8% to 40.8%, or a 17% increase. Note that since states already tax capital gains at the regular tax rate, there would be presumably no change in state taxes from recharacterization of carried interest as ordinary income.

76. Because no publicly-available data exists on this ratio, I corresponded with industry representatives for estimates. Note that the 2% management fees which partners receive are largely used to cover expenses of running the business, thus remaining profits are generally carried interest.

77. See Saez et al (2012), supra.

78. Recall that the top tax rate on carried interest would go from 23.8% to 40.8%, or a 17% increase.

79. Measuring riskiness of PE and VC portfolio companies is the subject of considerable academic debate, with estimates of beta (systematic risk) and idiosyncratic risk highly varied (for a summary of the literature, see Coupe, Alexandra "Assessing Risk of Private Equity—What's the Proxy?" *PAAMCO Perspectives* (2016)). Similarly, other measures such as the variance in internal rates of return (IRR) vary widely. Unfortunately, no publicly available dataset of risk by PE or VC company exists. Similarly, no such publicly available dataset exists for specific real estate properties; for a summary of the literature, see Lausberg, Carsten, et al. "Risk measures for direct real estate investments with non-normal or unknown return distributions." *Zeitschrift für Immobilienökonomie 6* (2020): 3-27.

PE investments, a proxy for the riskiest is the actual default of PE loans or 6%.[80] Here, I assume that PE managers will attempt to avoid such riskier deals. In the absence of any known estimates of this, and since it is possible that some safer, higher-yielding projects could be identified[81], I conservatively estimate that half, or 3%, of known riskier deals would be avoided. Combined with the .94% reduction in business activity (labor effect, discussed above), a conservative estimate of the total (labor plus risky project) effect would be a 3.94% downsizing of the industry (and portfolio companies invested on) due to the potential tax increase. This should be viewed as a conservative estimate since it does not include loss of returns (and potential downsizing) due to a switch to shorter-run investments. Since companies seeking PE backing typically have poor economic performance and find difficulty finding other financing sources, I assume that many such companies would continue to decline in profitability and ultimately fail, in the same proportion as the conservative downsizing effect estimated above, with corresponding decreases in employment.

For venture capital firms, all investments are inherently risky, and accordingly, they rarely have debt financing. Thus, the risky debt measure used for PE firms would be inappropriate. As Chaplinskya and Gupta-Mukherjee noted, VC firms reduce risk by decreasing the amounts of early-stage investments (seed, start-up, and early-stage[82]). Chaplinskya and Gupta-Mukherjee also note that if VCs' risk-taking decreases, all else equal, future exit returns would be expected to decrease due to the average lower returns from later-stage companies than early-stage companies. They also find that as expected exit markets decline (i.e., ability and price of selling a portfolio company through M&A or an IPO), VCs tend to decrease risk by investing less in early-stage companies. Since a tax increase on VC general partners also decreases exit values (to the GPs), it makes sense that a similar switch away from earlier-stage companies would occur, which would result in a decrease in overall total investments and pre-tax returns to the VC firms.

As to the amount of decreased earlier-stage investments[83], I estimate the following. Chaplinskya and Gupta-Mukherjee estimate that each .22% increase in expected returns (through exit) for a portfolio company increases early-stage investment by one percent.[84] Since the tax rate increase on VC general partners is a 17% decrease in returns, this implies a roughly 3.74% decrease in early-stage investments. Assuming that the general partners simply forgo putting such investments into latter-stage companies suggests a 3.74% downsizing of the industry. Since it is possible that VCs could find some acceptable

80. Actual defaults of PE-backed companies, which was 6% in 2024, see *Default Rates for Private Equity-Backed Companies on the Rise* (Moody's, Oct. 14 2024). My use of the actual default rate provides a conservative estimate; see "Leveraged Finance – US: Tracking the largest private equity sponsors LBO credit quality is weak, bodes ill for next downturn" (Moody's, Oct. 18 2018), which reports a 19% distressed rate. Although current distressed figures are not readily available, the 19% figure for 2018 is the percent of PE-backed firms having debt rated as B3N ("distressed"). See also "Leveraged Buyouts and Bankruptcy Rates" (2023), working paper for AIC, which estimates actual leveraged buyout bankruptcy rates at 2.3% to 4.5%.

81. Presumably, if such short-term investment opportunities already existed, given the amount of uninvested funds which already exist (see Pitchbook estimates of "dry powder" which exists in PE funds), they would already be invested in, and there may be no substitution of longer for shorter term investments. On the other hand, if instead of simply decreasing overall investments (via avoiding early-stage investments), PE funds were able to identify substitute shorter term investments, then overall returns to the PE would decline, and presumably overall investments would decline as well.

82. According to Pitchbook, VC investments for 2024 totaled $209.04 billion. Seed and pre-seed investments were $14.7 billion, and early-stage investments were $54.7 billion. So, ($14.7b+$54.7b)/$209.04b=33.3% (rounded).

83. According to Pitchbook, VC investments for 2024 totaled $209.04 billion. Seed and pre-seed investments were $14.7 billion, and early-stage investments were $54.7 billion. As a proportion we have ($14.7b+$54.7b)/$209.04b=33.3% (rounded).

84. Chaplinskya and Gupta-Mukherjee estimate ranges of .220% to .495%. For conservativism, I use the lowest estimate here.

shorter-term investments as substitutes,[85] and in the absence of data on the magnitude of such shifts, I conservatively estimate that half of the above downsizing (or 1.87%) would occur. Combined with the above labor elasticity, I predict a 2.81% decline in the VC industry and its portfolio of start-up companies. Because many start-ups (beyond a certain size) typically cannot find appropriate financing other than VCs at some point, I assume that many such companies would ultimately fail in the same conservative proportion as the downsizing effect estimated above, with corresponding decreases in employment.

The above labor and risk effects on PE and VC firms are summarized in **Exhibit 12.**

EXHIBIT 12

Elasticity Estimates for Private Funds

	Private Equity	Venture Capital
Labor Supply Elasticity	.0094	.0094
Risky Project Elasticity	.030	.0187
Total	.0394	.0281

Incentive Effects and Economic Impacts: Private Funds.
Private equity/venture capital firms may downsize (including their labor force) by up to the above 3.94%/2.81% estimates (if carried interest is taxed as ordinary income).

Incentive Effects and Economic Impacts: Private equity and venture capital Companies normally invest in.
Assuming the above declines (under the scenario of taxing carried interest as ordinary income), there may be a similar decline of up to 3.94%/2.81% in PE/VC portfolio companies, with a related drop in employment.

Overall Economic Impacts: Private equity and venture capital.
Under the scenario of taxing carried interest as ordinary income, there may be up to a 3.94%/2.81% decline in tax revenues from PEs/VCs, resulting in a 3.94%/2.81% decline in industry size (including employment), 3.94%/2.81% declines in returns to investors (including pensions), and 3.94%/2.81% declines in PE/VC portfolio firms (both employment and tax revenues generated from them). These estimates are conservative; there is a large library of academic literature on how private equity and venture capital investors and investment drive positive results that lead to benefits for all. For example, research on "industry spillovers" found that "positive externalities created by private equity firms are absorbed by other companies within the same industry[86]." Other research has found that after a leveraged buyout

85. Presumably, if such short-term investment opportunities already existed, given the amount of uninvested funds which already exist (see Pitchbook estimates of "dry powder" which exists in VC funds), they would already be invested in, and there may be no substitution of longer for shorter term investments. On the other hand, if instead of simply decreasing overall investments (via avoiding early-stage investments), VC funds were able to identify substitute shorter term investments, then overall returns to the VC would decline, and presumably overall investments would decline as well. Chaplinskya and Gupta-Mukherjee also show that each 1.034% increase in early-stage investment also increases expected returns by 1%, or stated in the alternative, each 1.034% decline in early-stage investment reduces returns by 1%. Since there would be a 3.74% drop in early-stage investments, we would expect a roughly 3.62% decline in returns, and potentially in the industry, assuming a shift from longer to shorter term investments.

86. https://www.sciencedirect.com/science/article/abs/pii/S0929119918307405

acquisition, targets become more profitable, grow faster, and increase capital expenditures compared with peer firms[87]. Other research has found that PE investment leads to improvement in workplace safety.[88] When things get tough, having a private equity sponsor is best to help navigate them. Several studies examine how private equity-backed companies navigated crises, finding that having a PE sponsor helps them weather the storm[89]. All this evidence suggests that the impact of recharacterizing carried interest capital gains could impact the U.S. economy beyond the estimates outlined above.

Possible Worst Case Scenario Incentive and Economic Effects: Private equity and venture capital firms.

However, the above losses may understate the effect of a carried interest capital gains tax increase. The tax rate changes examined in the above studies were relatively narrow, i.e., nowhere near the 17.0% rate increase that would occur under potential carried interest tax increase legislation. It is, therefore, possible, especially since owners in these firms would face a 40.8% federal tax rate on carried interest (vis-à-vis a 23.8% rate before) and combined marginal tax rates of up to 45.8% (which would include average state tax rates of 5%), that there could be significantly more than the above estimates of downsizing of the PE and VC industries, as well as their related federal tax base.

87. https://www.sciencedirect.com/science/article/abs/pii/S0304405X11001371

88. https://academic.oup.com/rfs/article-abstract/34/10/4832/6081024?redirectedFrom=fulltext

89. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4301174

Disincentive Effects and Overall Economic Effects:

DISINCENTIVE EFFECTS

Because commercial real estate is typically too expensive for a single person to invest in alone, investors tend to form ventures where money is pooled to make an acquisition. The organizer/manager is the general partner who finds a real estate investment (either an existing building or land on which to build a structure), sources investors, does all the management of the acquisition, obtains bank financing (commercial realty can be financed by as much as 70% loans), and performs critical work and skills. Notably, the general partner also assumes much of the investment risk by having their profits in the form of carried interest; that is, they get paid if and only if the project is profitable. Similar to private funds, the general partner puts in "sweat equity." Many such real estate investments are made by small groups of investors, where the general partner is not wealthy and aims to "get ahead" with such an investment. For real estate construction partnerships, there is an average of only 2.72 partners; for real estate leasing partnerships, there is an average of only 4.27.[90]

Carried interest is granted for the value the general partner adds to the venture beyond routine services, such as business acumen, experience, and relationships. It also recognizes the risks the general partner takes with respect to the general partnership's liabilities. These risks include funding predevelopment costs, guaranteeing construction budgets and financing, and exposure to potential litigation. Increasing the tax rate on the general partner's income from such investments has strong disincentive effects; see the previous discussion of such rate effects for private funds firms. It may make such partners less inclined to make an effort with respect to attracting investors to acquire or build real estate. It may also make the general partner less inclined to sell any properties (to avoid the high tax) and instead try to receive cash flows by refinancing the properties at some point in the future. Importantly, as with private funds, it may encourage more talented GPs to leave the industry. Lower talented GPs (who replace them) will likely earn lower returns, discouraging investors from financing real estate projects and hurting employment and tax revenues generated by the industry.

Perhaps most importantly, since it is a general principle in economics that for a riskier project to be undertaken, there must be a potentially higher return, the lower return (due to increased taxes) disincentivizes riskier real estate projects. Such riskier projects often include low-income housing, affordable housing, land remediation, investments in Opportunity Zones, and other lower-margin housing projects. The fact that tax subsidies are needed to encourage investments in affordable housing and Opportunity zones suggests that higher taxes would reduce such investments.

Also, longer-term projects generally imply more risk; here, the law change would encourage shorter-term, less-risky projects, which are less profitable. Increasing taxes on general partners in real estate ventures could have significant adverse economic effects. Accordingly, real estate partnerships could expect the same effects as those of the private funds industry (labor and risky project elasticities).

90. Some of these partners may be partnerships themselves. See IRS Statistics of Income, Partnership Returns https://www.irs.gov/statistics/soi-tax-stats-partnership-statistics-rental-real-estate-income-all-partnerships

Incentive Effects and Economic Impacts: Real Estate Partnerships.
Under the scenario of taxing carried interest as ordinary income, the owners (general partners) of such ventures would be subjected to a 17% tax increase (see discussion above). As discussed above, I assume a .94% labor elasticity.[91] Without data indicating the actual number of projects at higher risk,[92] I proxy this with a percentage of real estate debt that ends up being riskiest, or 3.04%.[93] This is the number I conservatively estimate for the downsizing effect due to avoiding riskier/longer-run investments.[94] This results in an estimated possible total downsizing impact effect of 3.98%. This conservative number implies a total decrease in the real estate industry. That is, less construction, development, and improvements would occur, with corresponding declines in employment. Similarly, fewer existing structures would be purchased, with such structures ultimately declining in profitability and ultimately being retired, resulting in corresponding decreases in employment at such facilities.

Overall Economic Impacts: Real Estate Partnerships.
Declines in tax revenues from real estate partnerships, resulting in similar percentage declines in industry size (including employment), returns to investors, real estate projects, and tax revenues generated by the industry, may occur at the above percent. The elasticities for real estate partnerships are shown in the Exhibit below.

EXHIBIT 13

Elasticity Estimates for Real Estate

Labor Supply Elasticity	.0094
Risky Project Elasticity	.0304
Total	.0398

91. As with PE and VC firms, we assume a similar negative response to the tax rate increase. Note that the profit sharing percents for general partners vary widely in real estate; the 20% estimate here is based on estimates from industry experts. Unlike private funds, where essentially all firms have carried interest, the carried interest component for real estate partnerships varies, and there is no comprehensive data on its use. Here, we assume all real estate partnerships (and LLCs) use carried interest. To the extent this is not true, my estimates of employment, etc. effects would need to adjust accordingly. Also, real estate GPs tend to contribute capital in the same amounts as do PE and VC GPs. Industry experts at the industry trade group (Real Estate Round Table) suggested the following. In the case of single property investments, a GP will often contribute 5-10% of the equity. In the case of commingled funds, the GP's contribution will tend to be lower (1-2%). But arrangements vary and also include those in which the GP contributes 3-5% of the equity. I the absence of data enabling a weighted average of the above, I assume an average of 3.25%, rounded down to 3%.

92. For real estate, holding periods are generally related to risk because market prices and interest rates can vary more over longer time periods. Holding periods vary greatly by type of investment strategy. The industry trade group (Real Estate Round Table) surveyed experts in this and found that (for non-REIT or large fund investments having no carried interest) low risk projects tended to be held 4-7 years, moderate to high-risk projects are held 2-5 years, and high-risk projects have variable holding periods. In the absence of weighted averages, I assume that on average real estate investment holding periods are 4.5 years.

93. For the approximate $4.7 trillion in commercial real estate loans held, approximately $86 billion are "distressed" and another $200 billions of real estate loans were under forbearance plans, had late payments, or were at risk of breaking covenants, such as lease-up rate. This latter number does not include properties with impending vacancy risk, meaning the number of potentially distressed assets is likely greater (MSCI and Federal Reserve data as reported by Moss Adams; see https://www.mossadams.com/articles/2024/04/commercial-real-estate-debt-dilemma). The $286 billion in riskier mortgages, divided by the total $4.7 trillion in commercial debt, is 6.08% (rounded). In the absence of any data to suggest otherwise, I conservatively assume approximately half of such risky loans (and thus real estate projects) or 3.04% (rounded) would be avoided. The remaining 50% of such investments thus might shifted to less risky alternatives (i.e., a substitution) which have lower pre-tax returns.

94. Investments can shift into generally less risky classes. For example, investments can shift out of commonly believed riskier projects (raw land development/construction, office space rental, etc) into commonly believed less risky classes (multifamily housing, storage facilities, etc). It is not known whether such shifts would occur evenly across each of the three industry groupings here (construction, leasing, and hotels/motels). Here, I assume that a 3.18% shift out of risky investments across these three groups would occur in the *aggregate*.

Possible Worst Case Scenario Incentive and Economic Effects: Real Estate Partnerships

However, the above losses may understate the effect of a carried interest capital gains tax increase. The tax rate changes examined in the above studies were relatively narrow, i.e., nowhere near the 17.0% rate increase that would occur under potential carried interest tax increase legislation. It is, therefore, possible, especially since owners in these firms would face a 40.8% federal tax rate on carried interest (vis-à-vis a 20% rate before) and combined marginal tax rates of up to 45.8% (which would include average state tax rates of 5%), that there could be significantly more than the above estimates of downsizing of the real estate industry, as well as its related federal tax base.

Overall Economic Impacts of Increased Taxes on Carried Interest

PRIVATE FUNDS INDUSTRY

Changing carried interest taxation into ordinary income may result in up to a 3.94%/2.81% downsizing of the private equity/venture capital industries over time, and that up to 3.94% of firms normally financed and managed by PEs would be unable to find other financing and management and fail. As a result, Federal tax revenues may decline by as much as $9.93 billion in the long run. These and other adverse effects of increased taxes on carried interest are shown in **Exhibit 14.**

EXHIBIT 14

Private Funds Industry: Estimated Potential Direct Impact of Increased Taxes on Carried Interest[95]

Private equity/ venture capital Firms	Private equity/ venture capital investors (Including pension funds)	Private equity/ venture capital portfolio companies	Federal Tax Revenues
Up to 3.94%/2.81% downsizing (long run)	Annual loss of up to 3.94%/2.81% (long run)	Up to 3.94%/2.81% failure rate (long run)	The annual loss of up to $10.57 billion (long run)

Exhibit 15 shows the impacts of the above. There may be a long-run loss of up to .67 million jobs, assuming a downsizing of PE firms, PE portfolio companies, VC firms, and VC portfolio companies. There may be a long-run net annual loss of up to $9.93 billion in Federal tax revenues.[96]

95. Long run impacts would be 10th year after implementation of the law change. See previous footnotes on the estimated long run trajectory of losses/downsizing.

96. Unlike the Federal case, there would be no offsetting state/local tax gains since carried interest is already taxed at the top tax rates (states generally do not have lower tax rates for long term capital gains).

EXHIBIT 15

Private Funds Industry: Estimated Potential Long-Run Loss in Cumulative Employment and Annual Tax Revenues Due to Increased Taxes on Carried Interest (in $billions).[97]

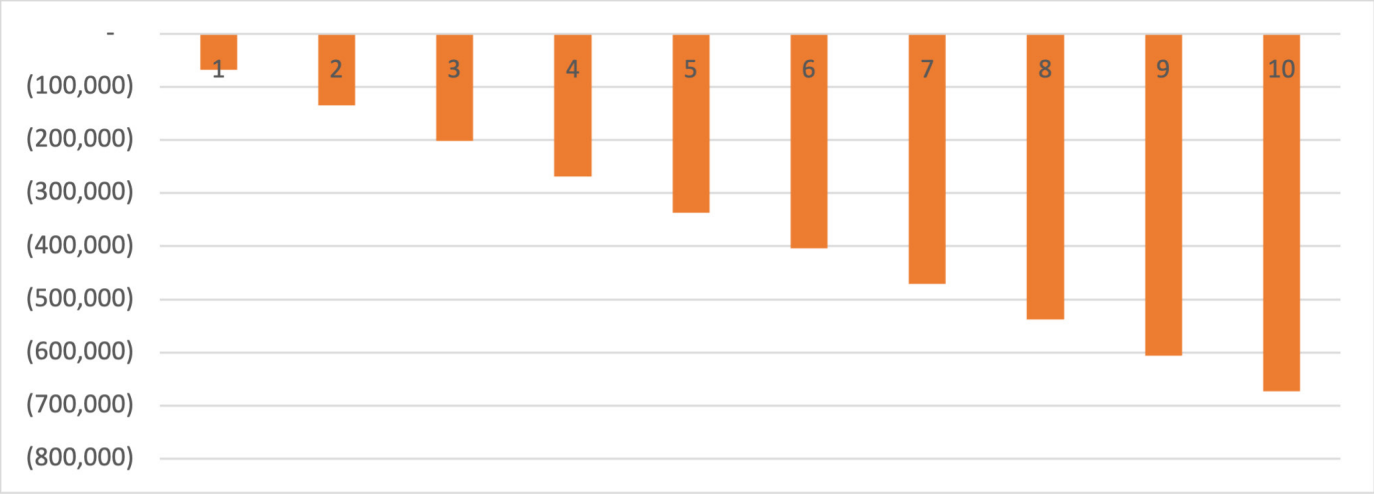
Taxing Carried Interest as Ordinary Income:	Private Equity+ Portfolio Companies*	Venture Capital Firms+ Portfolio Companies	Total Private Funds
Job Losses (millions)	.52	.15	.67
Loss in Federal Tax Revenues	$8.79	$1.79	$10.58
Less: Estimated revenue gain from CBO**	0.325	0.325	0.65
Net Loss in Federal Tax Revenues	$8.46	$1.47	$9.93

*Based on EY Study**, the CBO estimated a $1.3 billion/year gain from recharacterizing carried interest capital gains. The above shows half of this, and the other half is allocated to the real estate industry. Half of this private funds amount is allocated to private equity and venture capital. Totals may not be added due to rounding.

Exhibit 16 shows the 10-year trajectory of such estimated potential job losses due to increased taxes on carried interest.[98] Such job losses may be 67 thousand in the first year after implementation, increasing to 670 thousand by year 10.

EXHIBIT 16

Years 1->10 Trajectory in Estimated Potential Cumulative Job Losses After Increased Taxes on Carried Interest: Private Funds Industry



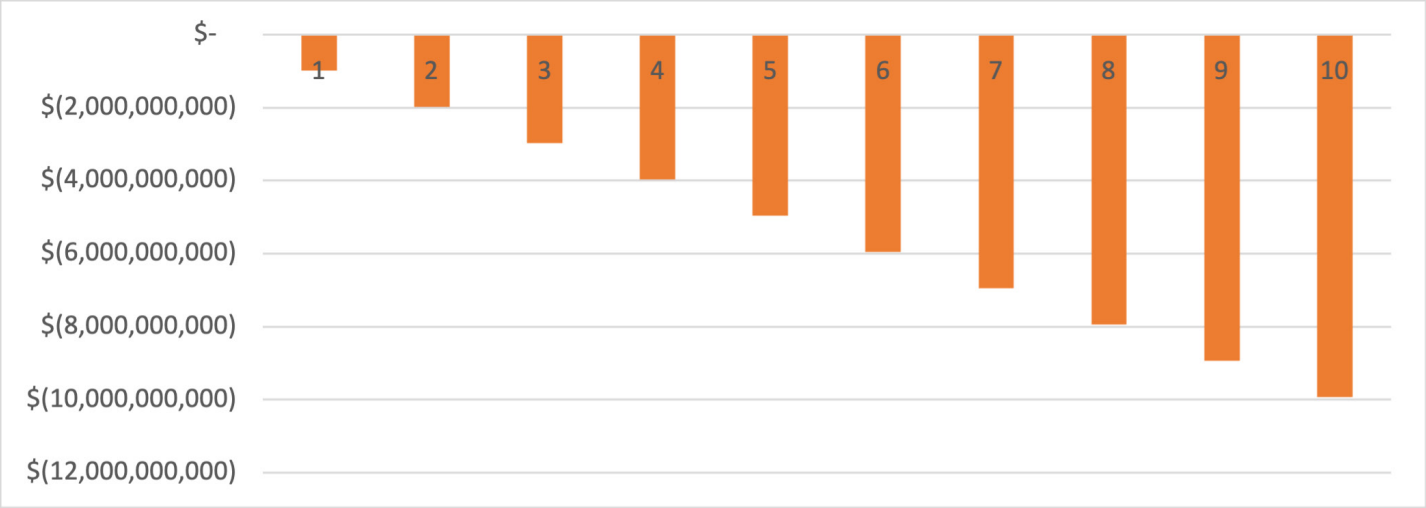
97. Both employment and tax revenue losses are in the 10th year after implementation. Totals may not add due to rounding.

98. PE firms hold a portfolio company on average approximately 5 years. Thus, after 5 years, existing PE companies will have been sold and there would be no new PE investments by this time. However, I conservatively estimate proportional employment and tax revenue losses over a 10-year period.

The 10-year trajectory of annual potential lost federal tax revenue is shown graphically in **Exhibit 17.**

EXHIBIT 17

Years 1->10 Trajectory in Estimated Annual Potential Federal Tax Revenue Losses After Increased Taxes on Carried Interest (in $billions): Private Funds Industry



REAL ESTATE INDUSTRY[99]

Here, increased taxes on carried interest may result in up to a 3.98% downsizing of the industry over time. The adverse potential effects of increased taxes on carried interest are shown in **Exhibit 18.**

EXHIBIT 18

Estimated Potential Direct Impact of Increased Taxes on Carried Interest: Real Estate Partnerships[100]

Real Estate Industry (includes construction, leasing, and hotels/motels)
Up to 3.98% long-run downsizing and equivalent percentage loss to investors and pension funds owning real estate if carried interest taxed as ordinary income.

99. It is unknown if some real estate investments managed by taxable partnerships would be taken up by REITS (which would not be subject to the proposed change in carried interest capital gains treatment). Here, we assume this is not the case.

100. Long run impacts would be 10th year after implementation of law change.

Exhibit 19 shows there may be a long-term loss of up to .56 million jobs, assuming a 3.98% downsizing of the industry if carried interest is taxed as ordinary income.

EXHIBIT 19

Estimated Potential Long-Run Loss in Cumulative Employment and Annual Tax Revenues Due to Increased Taxes on Carried Interest (in $billions) for Taxable Real Estate Partnerships.

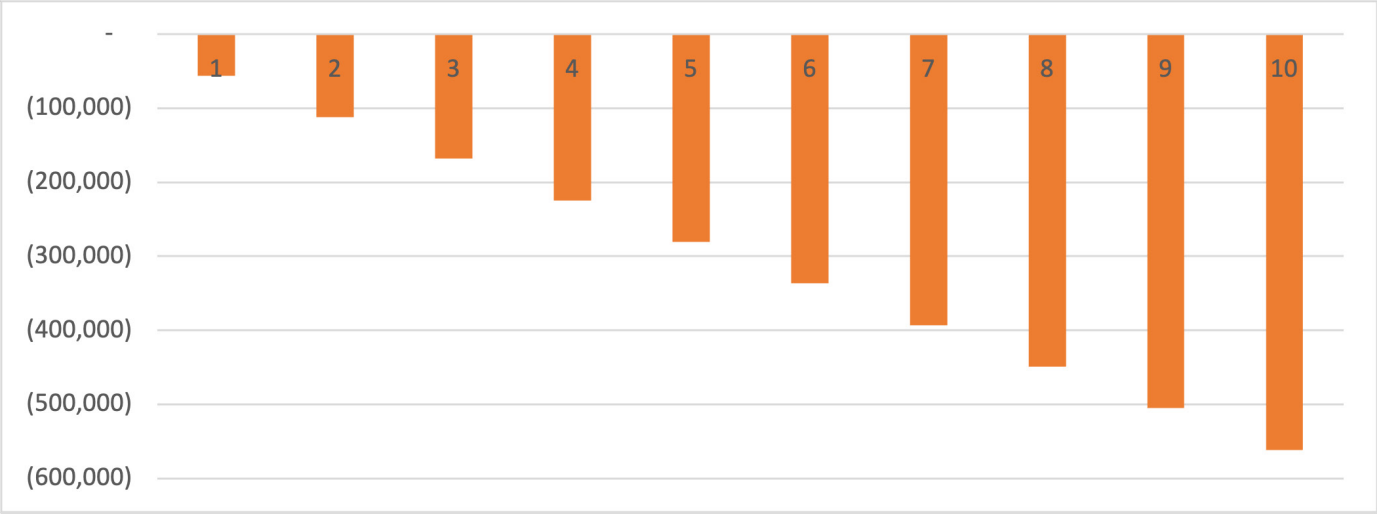
Taxing Carried Interest as Ordinary Income:	Totals
Job Losses (millions)	.56
Loss in Federal Tax Revenues	$3.57
Less: Estimated revenue gain (from CBO) *	.65
Net Loss in Federal Tax Revenues	$2.92

*The Congressional Budget Office—CBO-- (see previous cite) estimates a $1.3 billion long-run annual gain from the recharacterization of carried interest capital gains. The above shows half of this; the other half is allocated to the private funds industry. Totals may not be added due to rounding.

Exhibit 19 shows the 10-year trajectory of such estimated potential job losses.[101]

EXHIBIT 19

Years 1->10 Trajectory in Cumulative Estimated Potential Job Losses After Increased Taxes on Carried Interest: Real Estate Partnerships

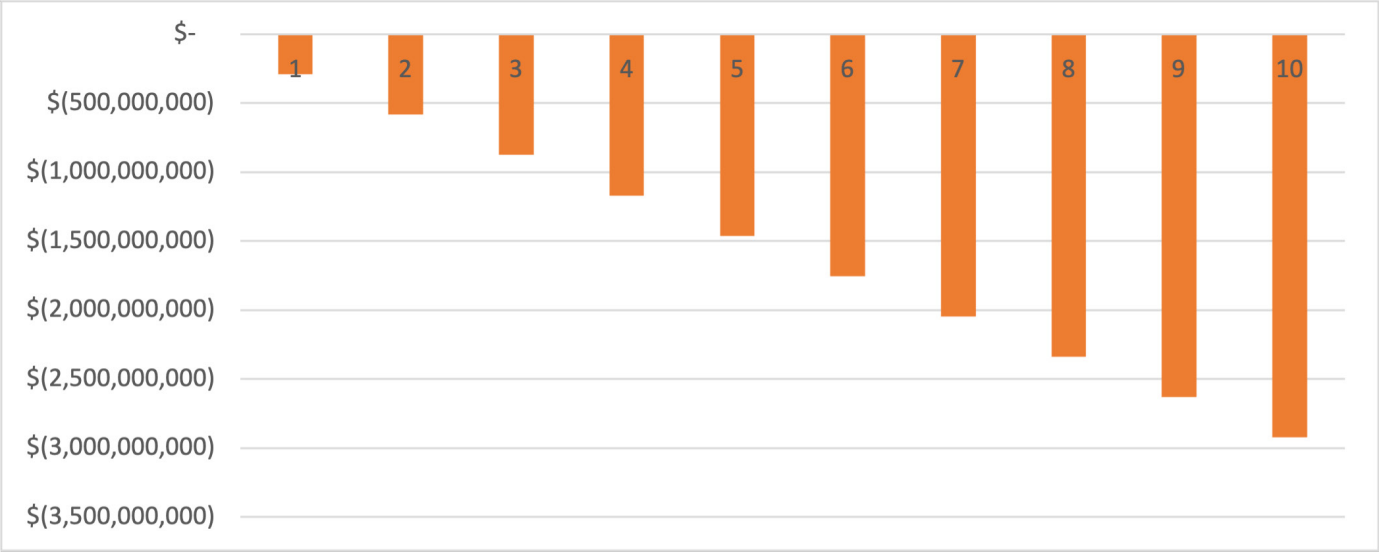


101. PE firms hold a portfolio company on average approximately 5 years. Thus, after 5 years existing PE companies with increased taxes on carried interest will have been sold and there would be no new PE investments by this time. However, I conservatively estimate that the losses will increase proportionately over 10 years.

Exhibit 19 also shows there may be up to $2.92 billion in annual lost Federal tax revenues if carried interest is taxed as ordinary income. The 10-year trajectory of such potential tax revenue losses is shown graphically in **Exhibit 20.**

EXHIBIT 20

Years 1->10 Trajectory in Estimated Potential Annual Federal Tax Revenue Losses After Increased Taxes on Carried Interest (in $billions): Real Estate Partnerships



OVERALL ECONOMIC IMPACT: PRIVATE FUNDS AND REAL ESTATE PARTNERSHIPS COMBINED

Exhibit 21 shows potential long-run job and tax revenue losses when combining private funds and real estate industries. Here, estimated potential job losses may be up to 1.23 million, and estimated potential federal tax revenue losses may be up to $12.84 billion for the case of taxing all carried interest as ordinary income.

EXHIBIT 21

Private Funds Plus Real Estate: Estimated Potential Long-Run Loss in Employment and Annual Tax Revenues Due to Increased Taxes on Carried Interest (in $billions). [102]

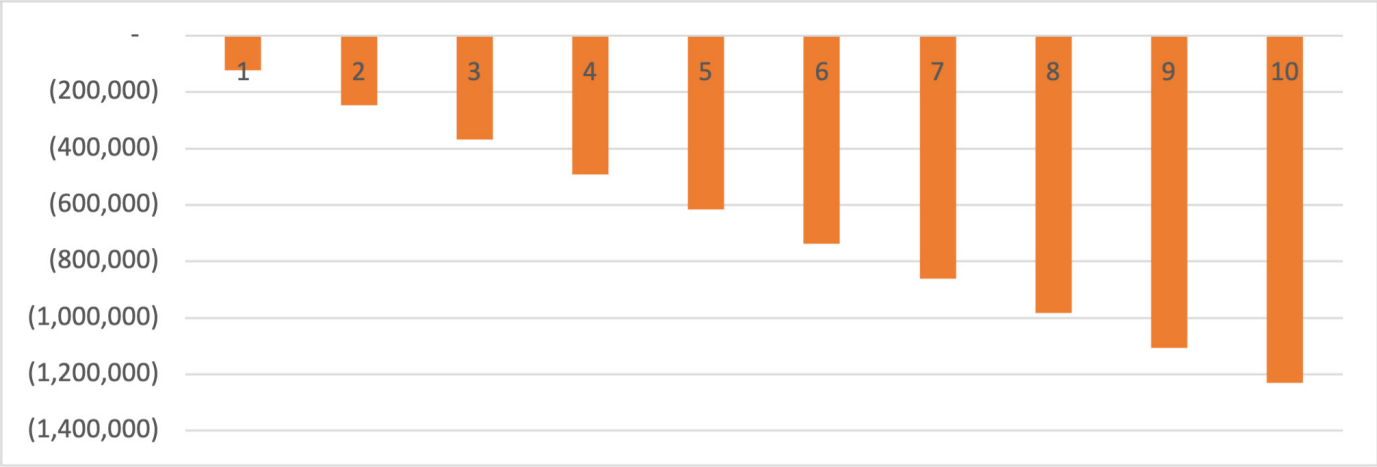
	Private Funds Firms (and their portfolio companies)	Real Estate Firms	Totals
Job Losses (millions)	.67	.56	1.23
Loss in Federal Tax Revenues	$10.57	$3.57	$14.14
Less: Estimated revenue gain (from CBO)	.65	.65	1.30
Net Loss in Federal Tax Revenues	$9.92	$2.92	$12.84

*Includes effects on PE portfolio companies (where base data is from EY study), VCs, and impact of VC portfolio companies.

Exhibit 22 shows graphically the 10-year trajectory of estimated potential job losses from **Exhibit 21**. **Exhibit 23** shows the 10-year trajectory of estimated potential tax revenue losses from **Exhibit 21.**

EXHIBIT 22

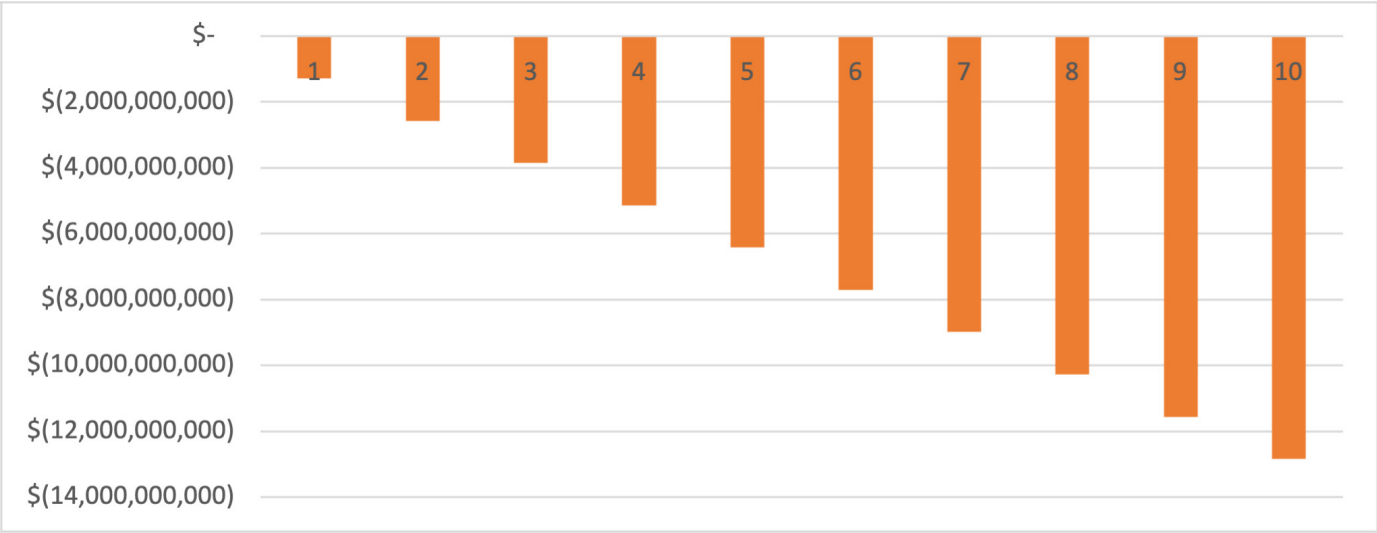
Years 1->10 Trajectory in Cumulative Estimated Potential Job Losses After Increased Taxes on Carried Interest for Combined Private Funds and Real Estate Partnerships



102. Both employment and tax revenue losses are in the 10th year after implementation. Calculations use IMPLAN. Figures for employment include direct employment for the private funds industry and their portfolio companies, and direct plus indirect (suppliers) employment for the real estate industry. Totals may not add due to rounding.

EXHIBIT 23

Years 1->10 Trajectory in Annual Estimated Potential Tax Revenue Losses After Increased Taxes on Carried Interest for Combined Private Funds and Real Estate Partnerships ($billions)



SENSITIVITY OF RESULTS TO ASSUMPTIONS

Appendix C performs sensitivity analyses to assumptions used in the foregoing analyses. Calculations show that if as little as .3 percent of private funds and real estate firms exit the market and an equivalent percent of private funds-sponsored firms fail, the Federal government may "lose money."

OTHER NEGATIVE IMPACTS OF INCREASED TAXES ON CARRIED INTEREST

Private equity and venture capital firms invest in critical American businesses. An example is manufacturing, where PEs have provided over $1.4 trillion in funding for over 11 thousand companies since 2013 in every state.[103] Manufacturing typically has the largest "multiplier" on local economies/jobs relative to all other industries. Private equity continues to invest in critical U.S. industries, with 2024 investments into industrials of $122 billion.[104] Private equity firms invested $174.9 billion[105] Private equity firms have also invested $50.1 billion[106] and have invested over $771 billion[107] Other critical PE investments include infrastructure: construction and engineering ($7.7 billion in 2024), building products ($4.4. billion in 2024), communications and networking ($4.3 billion in 2024), logistics and supply chain ($3.5 billion in 2024), IT services ($29.1 billion in 2024), materials and resources ($8.4 billion in 2024), oil and gas ($8.5 billion in 2024[108] as well as artificial intelligence (AI) and biotech.

103. See *Private Equity Boosts American Manufacturing* (American Investment Council, March 2024).

104. *Pitchbook* data, and https://www.investmentcouncil.org/private-equity-investments-support-american-health-care-covid-19-response/

105. US PE Breakdown (*Pitchbook*, 2024).

106. Ibid.

107. https://www.investmentcouncil.org/wp-content/uploads/aic_renewable_energy.pdf

108. *Building America's Infrastructure: How Private Equity Improves Local Communities* (American Investment Council, December 2024).

Similarly, venture capital has provided critical seed money for the American technology sector. Venture capital firms have helped nurture technology firms such as Intel, Apple, Salesforce, Amazon, Alphabet (Google), and Zoom, as well as crucial medical technology firms such as Genentech, NeuMoDx, and Moderna which have been important in the fight against Covid-19. Declines in private equity and venture capital investments in the above industries seemingly contradict an "America First" agenda. Also, evidence shows that increased taxes can reduce innovation. A recent study shows that increases in the state-level capital gains tax rate on venture capital (VC)-backed)-start-ups lessened the quantity and quality of patents by the start-ups.[109]

The real estate industry has also been essential to the American economy. In particular, real estate construction firms will be vital in addressing the shortage of housing and affordable housing; one estimate of this is that there is a 5.5 million underbuilding gap in housing units (a $4.4 trillion underinvestment).[110] Declines in investments in this industry are seemingly at odds with solving the housing shortage issue. Similarly, place-based tax incentives such as the New Markets Tax Credit save encouraged real estate development in low-income areas[111]. A tax increase on general partners who invest in such areas would seem counterproductive.

109. See Dimitrova, Lora, and Sapnoti K. Eswar. "Capital gains tax, venture capital, and innovation in start-ups." Review of Finance 27.4 (2023): 1471-1519.

110. See https://www.nar.realtor/june-is-national-homeownership-month/housing-supply-and-affordability

111. See "Can Place-Based Investments Like New Markets and Opportunity Zones Help Low-Income Neighborhoods and Residents?", the Urban Institute (2021), which can be found at https://www.urban.org/urban-wire/can-place-based-investments-new-markets-and-opportunity-zones-help-low-income-neighborhoods-and-residents? See also my work which shows that Federal Empowerment Zone are effective in job creation: Ham, John C., Charles Swenson, Ayşe İmrohoroğlu, and Heonjae Song. "Government programs can improve local labor markets: Evidence from state enterprise zones, federal empowerment zones and federal enterprise community." Journal of Public Economics 95, no. 7-8 (2011): 779-797.

About the Author

Charles (Chuck) Swenson, PhD, CPA, is Professor and Leventhal Research Fellow at the Marshall School of Business at the University of Southern California, where he has taught since 1987. Chuck has previously served as a Visiting Professor at UCLA and Caltech. Author of more than 50 academic research and professional articles on taxation which have appeared in such economics journals as the *National Tax Journal*, the *Journal of Public Economics*, and the *Journal of Law and Economics*, Dr. Swenson has won the Tax Manuscript Award from the American Taxation Association three times. He is author of two tax texts and is the General Editor of the treatise *Bender's State Taxation: Principles and Practice* (LexisNexis, 2009, updated quarterly). He has presented his economics-based tax research before the Senate Finance Committee, the New York Senate Revenue and Taxation Committee, the New York Assembly Committee on Jobs, the California State Assembly, and the City of Los Angeles, and is on the Editorial Boards of the *Journal of Accounting and Public Policy* and the *Asia Pacific Journal of Taxation*. His bio and curriculum vitae can be found at:

https://www.marshall.usc.edu/personnel/charles-w-swenson

Appendices

APPENDIX A: EMPLOYMENT AND WAGES FROM PRIVATE EQUITY

EXHIBIT A1

Total Private Equity Employment (thousands) and Wages by State (thousands)

	Jobs	Wages & benefits		Jobs	Wages & benefits
Alabama	26	$2,229	Montana	6	$491
Alaska	5	$428	Nebraska	16	$1,353
Arizona	46	$3,949	Nevada	21	$1,781
Arkansas	14	$1,218	New Hampshire	11	$950
California	358	$31,116	New Jersey	78	$6,872
Colorado	52	$4,622	New Mexico	10	$871
Connecticut	32	$2,804	New York	195	$16,815
Delaware	15	$1,230	North Carolina	74	$6,459
District of Columbia	9	$759	North Dakota	6	$468
Florida	152	$13,289	Ohio	84	$7,313
Georgia	82	$7,201	Oklahoma	20	$1,682
Hawaii	8	$669	Oregon	28	$2,412
Idaho	10	$833	Pennsylvania	91	$7,953
Illinois	104	$9,093	Rhode Island	7	$556
Indiana	45	$3,918	South Carolina	27	$2,322
Iowa	20	$1,701	South Dakota	6	$519
Kansas	19	$1,641	Tennessee	48	$4,199
Kentucky	23	$1,943	Texas	232	$20,099
Louisiana	25	$2,087	Utah	28	$2,442
Maine	8	$691	Vermont	4	$323
Maryland	46	$3,988	Virginia	64	$5,542
Massachusetts	75	$6,659	Washington	70	$5,987
Michigan	62	$5,348	West Virginia	8	$651
Minnesota	46	$4,064	Wisconsin	39	$3,372
Mississippi	12	$951	Wyoming	4	$290
Missouri	38	$3,249	**United States**	**2,507**	**$217,404**

The above does not include multiplier effects, which would show much higher employment/wage amounts. The above figures would also be much higher if VCs and their portfolio companies were included. Source: EY 2024 Report for AIC.

APPENDIX B

PE deals by Year and State (in $billions, 2014-2024) *

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
California	$45.2	$59.7	$52.4	$55.7	$60.0	$77.9	$57.6	$180.6	$166.4	$89.9	$88.3
Texas	$65.4	$50.9	$68.4	$77.1	$129.7	$78.0	$65.2	$111.8	$111.5	$68.2	$59.3
New York	$29.5	$31.1	$42.4	$46.3	$38.0	$38.0	$36.3	$84.1	$70.0	$60.2	$41.9
Florida	$31.4	$24.2	$28.5	$31.1	$28.2	$43.1	$47.0	$67.4	$86.4	$43.4	$200.0
Colorado	$16.0	$9.3	$17.6	$23.9	$20.6	$13.3	$36.3	$30.0	$20.1	$28.0	$27.3
Ohio	$17.0	$13.7	$15.7	$12.2	$20.5	$19.1	$18.3	$34.5	$24.7	$17.5	$25.6
Utah	$4.6	$3.9	$4.1	$7.3	$4.5	$5.6	$13.4	$14.9	$12.6	$17.9	$25.5
North Carolina	$9.6	$14.6	$12.1	$28.0	$21.4	$19.4	$13.6	$50.4	$27.2	$24.9	$24.6
Pennsylvania	$15.4	$18.9	$22.2	$25.5	$26.2	$17.0	$16.1	$42.9	$39.0	$28.8	$24.2
Georgia	$13.6	$15.9	$13.2	$13.0	$24.9	$19.0	$24.4	$47.8	$21.5	$25.2	$23.2
Illinois	$27.0	$30.8	$26.7	$34.0	$27.5	$42.3	$27.7	$112.9	$70.0	$48.5	$22.9
Massachu-setts	$13.9	$12.2	$94.0	$26.3	$21.9	$32.3	$35.9	$47.1	$51.8	$23.3	$19.2
Connecticut	$5.7	$7.6	$5.5	$8.8	$8.2	$15.2	$5.9	$17.9	$17.0	$15.7	$18.1
Virginia	$10.0	$12.3	$10.4	$13.0	$8.3	$18.2	$18.4	$31.2	$23.2	$20.0	$13.1
Tennessee	$10.4	$7.0	$12.8	$24.1	$33.5	$11.2	$7.8	$20.4	$16.4	$11.0	$11.7
New Jersey	$18.9	$11.6	$12.9	$12.1	$14.3	$22.6	$13.3	$40.4	$20.6	$29.3	$11.1
Michigan	$13.2	$6.6	$11.8	$12.1	$13.2	$14.0	$11.9	$27.3	$16.4	$11.8	$10.9
Arizona	$4.4	$26.4	$5.9	$6.9	$9.6	$17.1	$18.5	$17.1	$13.0	$8.1	$10.3
Missouri	$9.9	$5.0	$9.1	$15.4	$8.4	$13.3	$6.8	$15.4	$7.8	$16.2	$10.2
Washington	$6.0	$6.4	$9.7	$4.7	$18.8	$13.4	$13.3	$21.5	$19.7	$9.6	$9.7
Minnesota	$6.4	$11.1	$6.7	$8.2	$11.7	$9.1	$10.0	$15.2	$13.8	$10.0	$9.3
Maryland	$5.5	$5.5	$4.3	$5.7	$8.6	$6.0	$6.3	$20.5	$11.8	$9.0	$7.8
South Carolina	$2.2	$2.8	$5.3	$7.0	$4.7	$4.5	$4.5	$7.1	$8.3	$10.6	$7.5
Wisconsin	$17.8	$6.0	$4.6	$5.3	$9.0	$20.4	$8.5	$14.3	$7.7	$8.1	$5.8
Indiana	$3.8	$12.1	$8.8	$7.5	$4.8	$10.7	$7.6	$14.2	$11.0	$9.0	$5.3
Oregon	$2.7	$3.9	$3.3	$3.0	$5.1	$6.4	$6.6	$9.0	$6.0	$7.7	$5.0
Alabama	$2.5	$3.0	$2.8	$2.9	$3.1	$4.8	$3.3	$6.7	$4.9	$4.1	$4.6
Louisiana	$4.0	$1.7	$7.7	$6.0	$2.9	$3.5	$6.2	$4.8	$4.2	$4.4	$4.4
Kansas	$3.8	$2.5	$3.5	$2.6	$3.5	$5.6	$5.1	$17.2	$4.5	$4.8	$4.4
New Hampshire	$5.0	$1.5	$1.8	$2.8	$2.3	$5.3	$1.4	$6.2	$5.0	$2.2	$3.8
Oklahoma	$9.5	$5.3	$3.5	$5.8	$6.1	$5.5	$1.7	$5.4	$3.8	$3.6	$3.7
Idaho	$0.8	$0.6	$0.9	$0.9	$1.3	$1.4	$3.0	$2.2	$2.4	$1.8	$3.4
Kentucky	$1.9	$4.0	$6.1	$4.8	$13.2	$9.3	$2.7	$6.6	$4.8	$3.7	$3.2
Nevada	$3.4	$1.5	$7.0	$2.6	$7.9	$1.7	$3.1	$10.8	$20.6	$5.5	$2.1
Iowa	$2.7	$2.2	$0.9	$3.3	$1.6	$1.7	$1.9	$3.2	$3.1	$2.2	$1.9
Delaware	$2.6	$0.6	$1.1	$0.9	$0.8	$0.9	$1.0	$2.8	$4.8	$3.2	$1.7
Arkansas	$1.0	$0.8	$1.4	$0.7	$1.5	$2.5	$1.7	$2.9	$4.7	$3.0	$1.4
Mississippi	$1.1	$0.7	$0.4	$1.2	$1.4	$1.0	$1.0	$1.8	$1.1	$1.6	$1.3

District of Columbia	$0.7	$0.6	$0.7	$3.2	$1.3	$1.3	$1.1	$4.9	$3.3	$1.9	$1.3
New Mexico	$0.8	$0.4	$1.0	$1.1	$1.2	$1.8	$0.9	$1.6	$1.7	$0.9	$1.3
Rhode Island	$0.5	$0.9	$1.0	$0.8	$0.5	$1.0	$1.1	$2.0	$1.3	$4.5	$1.0
Nebraska	$1.9	$1.3	$3.0	$12.2	$1.1	$2.5	$1.4	$5.0	$4.3	$1.6	$0.9
Maine	$0.9	$1.0	$1.4	$1.0	$0.6	$1.0	$1.4	$1.8	$4.6	$1.1	$0.8
Montana	$0.6	$0.2	$0.2	$0.7	$0.6	$0.5	$0.5	$1.4	$0.9	$0.9	$0.8
Vermont	$0.3	$0.2	$0.3	$0.2	$1.1	$0.9	$0.7	$1.1	$0.7	$0.8	$0.8
West Virginia	$0.4	$0.3	$0.7	$1.3	$0.4	$1.0	$0.6	$0.8	$1.7	$0.9	$0.7
Hawaii	$0.4	$0.2	$0.7	$0.5	$0.5	$0.2	$0.2	$1.2	$0.5	$1.3	$0.5
North Dakota	$1.1	$2.6	$0.6	$2.4	$0.4	$3.7	$0.2	$0.2	$0.5	$0.3	$0.5
Puerto Rico	$0.2	$0.2	$0.4	$0.2	$1.0	$0.1	$0.4	$0.7	$0.3	$0.6	$0.3
South Dakota	$0.8	$0.4	$0.2	$0.2	$0.4	$0.4	$0.4	$1.1	$0.9	$0.7	$0.3
Wyoming	$2.1	$0.6	$0.2	$1.1	$0.5	$0.2	$0.4	$0.4	$0.5	$0.2	$0.3
Guam				$0.1		$0.1			$0.1		$0.2
Alaska	$0.8	$0.4	$0.4	$0.2	$0.4	$0.2	$5.7	$0.8	$0.5	$1.1	$0.2
Virgin Islands		$0.0	$0.2		$1.3	$0.1	$0.3				$0.1
Other U.S. Territory	$0.2									$0.1	

*As of 1/25/24. 2024 amounts extrapolated. Source: *Pitchbook* and *AIC*, 2024.

APPENDIX C

Sensitivity Analysis

We can solve for the minimum response rate to increased taxes on carried interest before governments start to lose tax revenues. For the Federal case, we solve:

($376 billion *x) -$1.3 billion=0, (C1)

Where x=% response rate to taxation, $1.3 billion is the presumed average annual gain to the Federal government on the new taxes from increased taxes on carried interest (without behavioral responses, as estimated by CBO), and $376 billion is the total Federal tax revenue generated by the combined private funds and real estate industries (see previous tables). Solving for X in equation (C1), the above yields approximately .003. So, if as little as .3% of firms (private funds+ real estate) exited the market, the Federal government would lose money.

APPENDIX D

Tax Rates on Carried Interest for Other Countries

Country	Carried Interest Tax Rate	Country	Carried Interest Tax Rate
Denmark[112]	56.00%	Italy[122]	26.00%
Australia[113]	47.00%	Japan[123]	20.315%
United States[114]	40.80%	China[124]	20.00%
Norway[115]	37.84%	Singapore[125]	0.00%
France[116]	34.00%	Hong Kong[126]	0.00%
United Kingdom[117]	32.00%	Luxembourg[127]	0.00%
Germany[118]	28.50%	United Arab Emirates[128]	0.00%
South Korea[119]	27.50%	Saudi Arabia[129]	0.00%
Netherlands[120]	26.90%	Qatar[130]	0.00%
Canada[121]	26.76%		

112. Carried interest is taxed as personal income
113. Only venture capital qualifies for reduced tax treatment.
114. Currently 23.8% (20% LTCG + 3.8% NIIT). If reclassified as ordinary income, it will be taxed at 37%. The provision generally requires that a capital asset be held for more than three years for capital gains allocated with respect to any API to be treated as a long-term capital gain. Questions about NIIT remain.
115. Carried interest is taxed as capital gains at a 37.84% rate.
116. Flat 34% tax rate applies to carried interest.
117. Currently 32% but will be treated as trading income from April 2026 (effective tax rate ~34.1%).
118. Carried interest is taxed at an effective rate of 28.5%.
119. Carried interest is taxed as capital gains at rates up to 27.5%.
120. Carried interest is taxed under Box 2 at 26.9%. If reclassified as employment income, it is taxed at up to 49.5%.
121. Carried interest is taxed as capital gains at 50% of the individual's marginal tax rate, leading to an effective rate of 26.76%.
122. Flat 26% tax rate if qualifying conditions are met.
123. Carried interest may qualify for capital gains treatment at a 20.315% rate.
124. Flat 20% tax rate on capital gains, applicable to carried interest.
125. Singapore does not impose a capital gains tax, making qualifying carried interest tax-free.
126. Carried interest is exempt from taxation if qualifying conditions are met.
127. Subject to conditions
128. Subject to conditions
129. There is no individual income tax scheme in Saudi Arabia
130. No personal Income Tax in Qatar