Tax Reform Must Retain Carried Interest As A Capital Gain

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As President Trump and Congress ramp up discussions on what comprehensive tax reform should look like, they ought to be able to agree that reducing, not raising, the tax burden on badly-needed investment is a top priority. That's the opinion of two of Washington's most prominent taxpayer groups, which today urged leaders on both ends of Pennsylvania Avenue to get an early start on publicly declaring tax-reform principles that encourage investment, among them ensuring that all types of capital gains are treated fairly, without harsh or discriminatory exceptions in the law.

Grover Norquist, Founder and President at Americans for Tax Reform, and Pete Sepp, President of National Taxpayers Union, offered the following statement ahead of GOP's policy retreat, where tax reform is expected to be the topic of in-depth discussions:

"The next four years represents an opportunity to reduce **--** not increase taxes on capital gains. Over the past eight years, the top rate increased from 15 percent to 23.8 percent, and the top **integrated rate** currently sits at 56.3 percent compared to the OECD/BRIC average of 40.3 percent.
While it appears unlikely that incoming lawmakers and the administration will increase rates outright, they should also be sure not to incrementally move the needle toward higher capital gains taxes in other ways, like boosting taxes on carried interest capital gains.

Carried interest capital gains income is earned through a net gain within a partnership formed between individuals with capital and an expert investor. They are indistinguishable from any other type of capital and so they are paid at the same capital gains tax rates.

While supporters of higher taxes on carried interest capital gains say it takes aim at 'hedge fund guys,' it would also hurt pension funds, charities, and colleges that depend on these investment partnerships as part of their savings goals. In addition, small businesses would find themselves increasingly shut out from investment money available to them from these partnerships.

Rather than supporting proposals that lead to higher capital gains tax rates, the incoming Congress and administration should look toward lower rates. One model to follow is contained in the House GOP blueprint, which reduces the top rate on capital gains to 16.5 percent."

ATR is a nonpartisan taxpayer advocacy group, and sponsors the Taxpayer Protection Pledge. NTU is a pro-taxpayer lobbying organization working for lower, simpler taxes and economic freedom at all levels.
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