



Carried interest deduction is one campaign promise Trump shouldn't keep

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Three of us form a partnership. I put up the cash. My wife does the books. You are the investment expert.

Should any of us pay more in tax on what the partnership earns than the others? No, right?

That's the way it is now. All the members of our partnership would be taxed at the 20 percent rate for long-term capital gains, rather than the top rate of 39.6 percent on ordinary income.

And even that is too high. As [Dan Mitchell of the Cato Institute points out](#), a capital gain is not income. It's an asset that has increased in value. You get the gain only if you sell the asset, but you pay the tax up front whether you sell or not. Why not wait, Mitchell argues, until the asset is sold and the capital gain actually is realized?

But that's not good enough for the soak-the-rich crowd in Washington. So Rep. Sander Levin, D-Mich., and Sen. Tammy Baldwin, D-Wisc., have introduced the Carried Interest Fairness Act, which would mean one member of the partnership would not be treated like the others, tax-wise, solely because of the nature of that person's contribution.

The legislation calls for treating capital gains as ordinary income and thus subjecting it to the higher tax rate. Sponsors say it would raise \$15.6 billion over 10 years, but opponents say it would cost far more than that in lost economic opportunity.

Stuart Butler, the Heritage Foundation vice-president who spearheaded its work on what became known as RomneyCare and has since decamped to the liberal Brookings Institution, warned a decade ago of the dangers of ending the carried interest deduction.

"This tax hike would not only threaten the economy generally," he wrote while at Heritage. "It would also jeopardize a particularly important and crucial part of the entrepreneurial economy – capital-intensive firms that take the risk of investing in and restructuring underperforming enterprises and putting them onto a sound footing."

Investments act as market signals, growing the products and companies that are meeting demands and forcing out those that do not. The people who follow these developments and send these signals play a valuable role in our economy. They build prosperity for themselves and others, encourage the growth of viable, efficient companies and discourage those that don't measure up. And they should not be punished for their contribution.

For the most part, support for the measure comes from the regular suspects – Hillary Clinton was for it on the campaign trail, President Obama supported it, as do a panoply of public- and private-sector unions, left-think tanks and interest groups and Democratic politicians.

But sponsors say their legislation enjoys bipartisan support. And indeed there are some Republicans, such as Jeb Bush, enthralled with sticking it to hedge fund managers, who also are covered under the carried interest deduction.

Most problematically, there is a certain Republican who has voiced support for the concept of eliminating the deduction, saying on the campaign trail, "As part of (tax) reform, we will eliminate the carried interest deduction and other special interest loopholes that have been so good for Wall Street investors, and for people like me, but unfair to American workers."

And that Republican happens to be President Trump. It's not known if he remains committed to this – he did not include it in his preliminary budget and has not mentioned it since he was elected. But Larry Kudlow, among others, says Trump continues to push for it, although indications are he and Congress are not close to an agreement on how or even whether to remove the deduction.

But the Democratic sponsors are committed to making an issue of his past support.

"If President Trump is in fact serious about closing the carried interest tax loophole for hedge fund managers on Wall Street, we are introducing legislation to do just that and we welcome his support so he can keep the promise he has made," said Baldwin. "He needs to stand by his word to close the carried interest tax loophole and support our legislation."

There is hope he won't take Baldwin's bait. The president's top goal seems to be to make America great again, and the top item on the list to make that happen appears to be boosting economic growth into the 3-4 percent range.

Moreover, Mitchell says the carried interest fight is a proxy for a battle to raise all capital gains taxes, which Trump has not said he supports.

"It would be an overstatement to say that everyone who wants higher taxes on carried interest wants higher taxes on all forms of capital gains," Mitchell wrote. "But it is accurate to assert that every advocate of higher taxes on capital gains wants higher taxes on carried interest."

And if they succeed? "That would be a very bad result for American workers and for American competitiveness."