

New York City May Consider Taxing Carried Interest

By Christopher Faille, Senior Financial Correspondent

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NEW YORK (HedgeWorld.com)—New York City may now pick up the debate on the taxation of carried interest where the U.S. Congress left it last fall, under the rubric of the city's Unincorporated Business Tax.

The Fiscal Policy Institute, a tax-policy group founded in 1991, said in a report issued Tuesday [April 15] that the city could raise about \$200 million in new revenue, level the playing field for New York businesses, and improve the investment climate if it simply applied its UBT to the 20% share in the profits typically paid by contract to the managers of hedge funds and private equity funds.

“New York City is the leading national and international center for such funds,” the Institute wrote in the report. “Eleven of the world's 50 largest private equity firms are headquartered in the city, as are 13 of the world's top 50 performing hedge funds.”

Last year, largely due to the efforts of Rep. Charles Rangel (D-N.Y.), chairman of the House Ways and Means Committee, a proposal to tax carried interest was extensively debated as a means of closing the budget hole created by the general consensus that middle class Americans require protection from the bite of the alternative minimum tax. [Previous HedgeWorld Story.](#)

The Fiscal Policy Institute's proposal, now reportedly under serious consideration among New York City officials, is a good deal less drastic than was Mr. Rangel's. His proposal would have increased the federal taxation of carried interest from 15% (the capital gains tax rate) to 35% (the rate for ordinary income). The Institute, on the other hand, would have the city tax profits at 4%.

The actual “hit” could be lower, as low as 2%, since the payment of the UBT can itself be deducted from federal taxes and can count as a credit toward city income taxes.

The Brooklyn-based Working Families Party enthusiastically supports the idea. In a statement that was also released on Tuesday, the party's executive director, Dan Cantor, said, “As working families are paying more and more of their income in taxes, some of the wealthiest New Yorkers are not paying their fair share.”

A millionaire's tax proposal died in New York's state legislature in Albany last month. E.J. McMahon, a senior fellow for tax and budget studies at the Manhattan Institute, said in an opinion article for the New York Sun on Wednesday [April 16] that the millionaire's tax will likely be revived soon after the November election.

In a telephone conversation Friday [April 18], Mr. McMahon said he understands the argument Mr. Rangel was making at the federal level and it is an intellectually respectable one. Mr. Rangel contended that some ordinary income is being disguised as capital gains.

Mr. McMahon said he sees technical issues with that, but has some sympathy. Still, the proposed change in the UBT is unrelated to that issue of principle. “The firm, the [limited liability partnership] has to pay 4% tax on that money,” he said. “Then you [the partner] get it, and you have to pay income tax on it again.” This is just a revenue grab.

New York City has to concern itself with its competitiveness as a world financial center. “The UBT is a bad tax and the last thing that New York City needs is to expand the UBT. It should be working to shrink the UBT,” he said.