PrivateEquityOnline

Think tank proposes NYC tax on carry

Posted April 17, 2008 by Amanda Janis.

The Fiscal Policy Institute estimates a 2 percent tax on carry would produce annual revenues of $160m to $200m – figures budget-conscious legislators aren't likely to miss.

Carried interest is pay for performance, and like management fees, should be taxed by New York City, concludes a report from the Fiscal Policy Institute.

The 4 percent unincorporated business tax (UBT), which all unicorporated companies or professionals conducting business in whole or in part in New York City must pay, currently amounts to a 2 percent rate for management fee income, due to a tax credit passed last year coupled with federal tax deductions.

But that 2 percent tax should also apply to carried interest, which is currently exempt, said James Parrott, chief economist and deputy director of the Fiscal Policy Institute, an independent non-profit that analyses New York state and local policies.

> Isn't it reasonable that they pay their fair share of taxes?
>
> *James Parrott*

"They're already paying the 2 percent on their management fee income, this is just extending the tax principle to the carried interest side of it," he told PEO. "It strikes a lot of people as a no-brainer that given they're making [very large] incomes, isn't it reasonable that they pay their fair share of taxes? Why should they have preference over a smaller business that's paying 4 percent on all of their income?"

The think tank estimates imposing the UBT on carry would generate average annual revenues between $160 million (€100 million) and $225 million.

Parrott anticipates arguments that such a tax would trigger "fund flight", but calls them hollow.

"You hear that every time you mention anything about taxes," he said, noting he's well aware of the industries' benefits for the city and state. Prior to joining the Fiscal Policy Institute, Parrott worked for both the City of New York and the state controller, where he headed up the forecasting unit and under his direction, the controller published the first ever report on the economic and fiscal importance of Wall Street to the city and state.

Momentum on a federal level last year to change the carried interest tax rate from the 15 percent capital gains rate to highest rate charged for marginal ordinary income, 35 percent, stalled after industry pushback and heavy lobbying on Capitol Hill.

"The proportionate impact of what we're talking about at a city level is just a fraction of the implication of the change proposed at the federal level," said Parrott.

The UBT issue is unique to cities like New York and Washington DC, which have large unincorporated business sectors and have thus imposed a special tax.

The carry tax question pursuant to UBT will likely be unique to New York as other cities don't have as large a concentration of alternative asset managers, Parrott said.