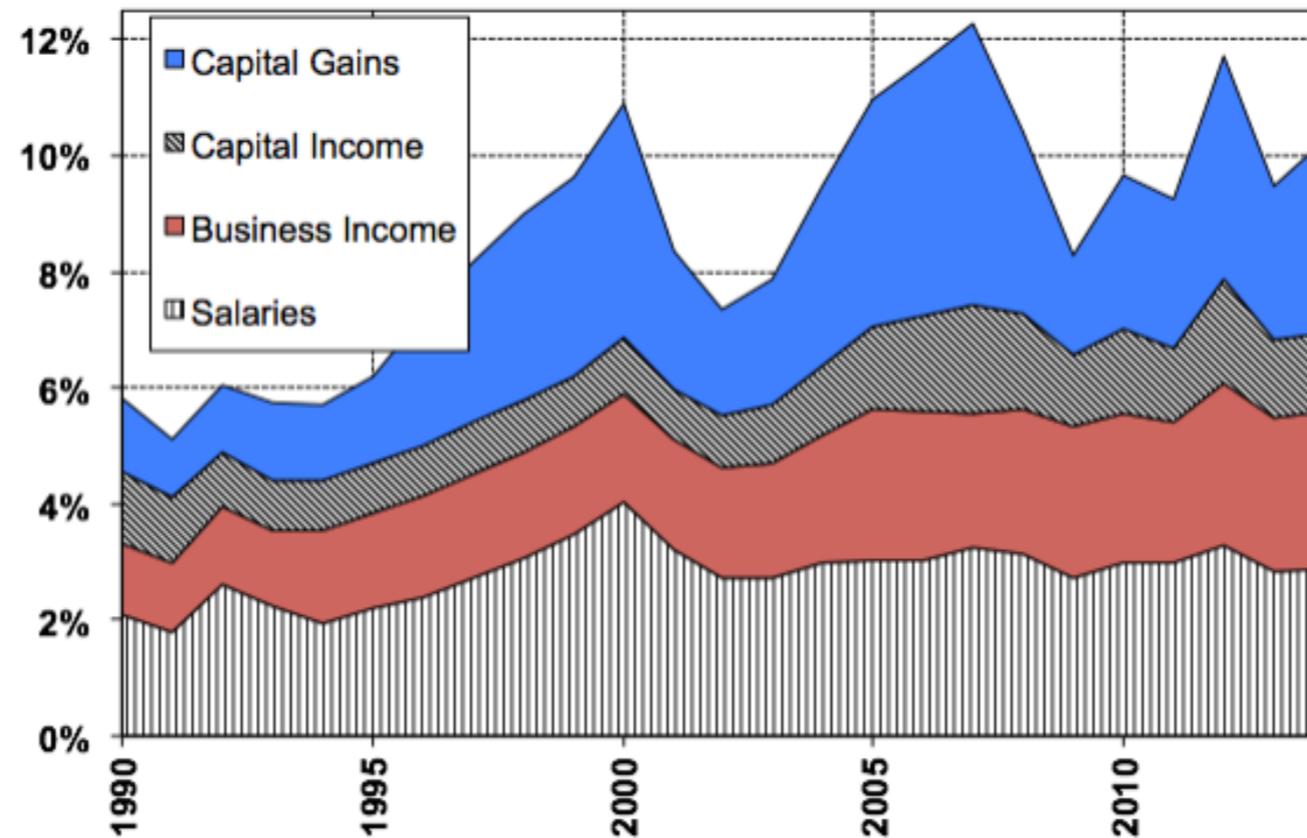


CARRIED INTEREST AND INEQUALITY

Figure 7: The Top 0.1% in the Private Equity Era



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including or excluding realized capital gains, and always excluding government transfers.

overview

ALPHA

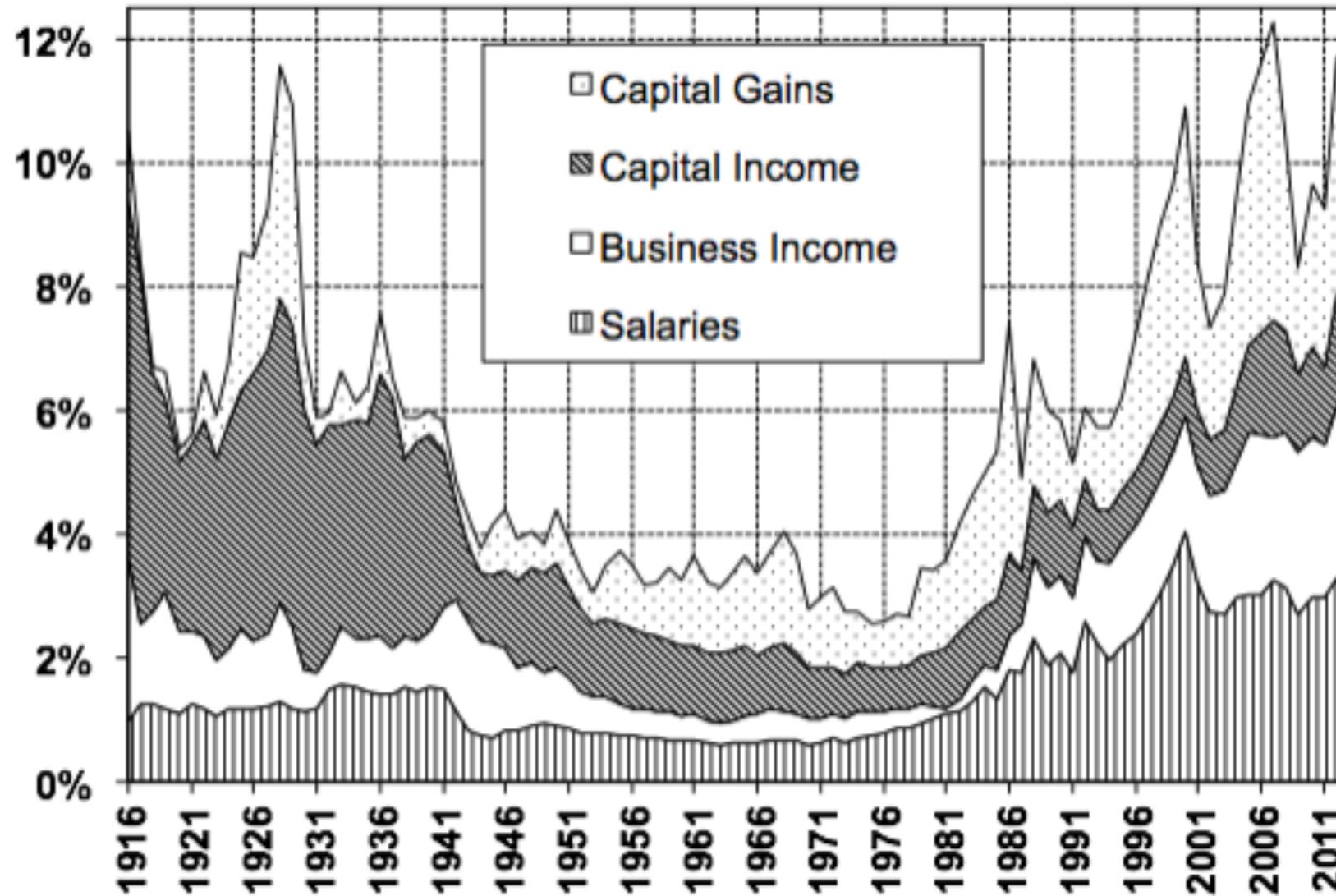
CAPITAL GAINS AND INEQUALITY

- (1) U.S. inequality is caused by inequality in **labor** income, not inequality in capital income
- (2) "alpha" income often reported as **capital gains** income
- (3) Treasury/JCT estimates of carried interest reform are low by an **order of magnitude**
- (4) The Obama administration should use **executive action** to tax carried interest at ordinary rates

capital gains at the
top come from *alpha*

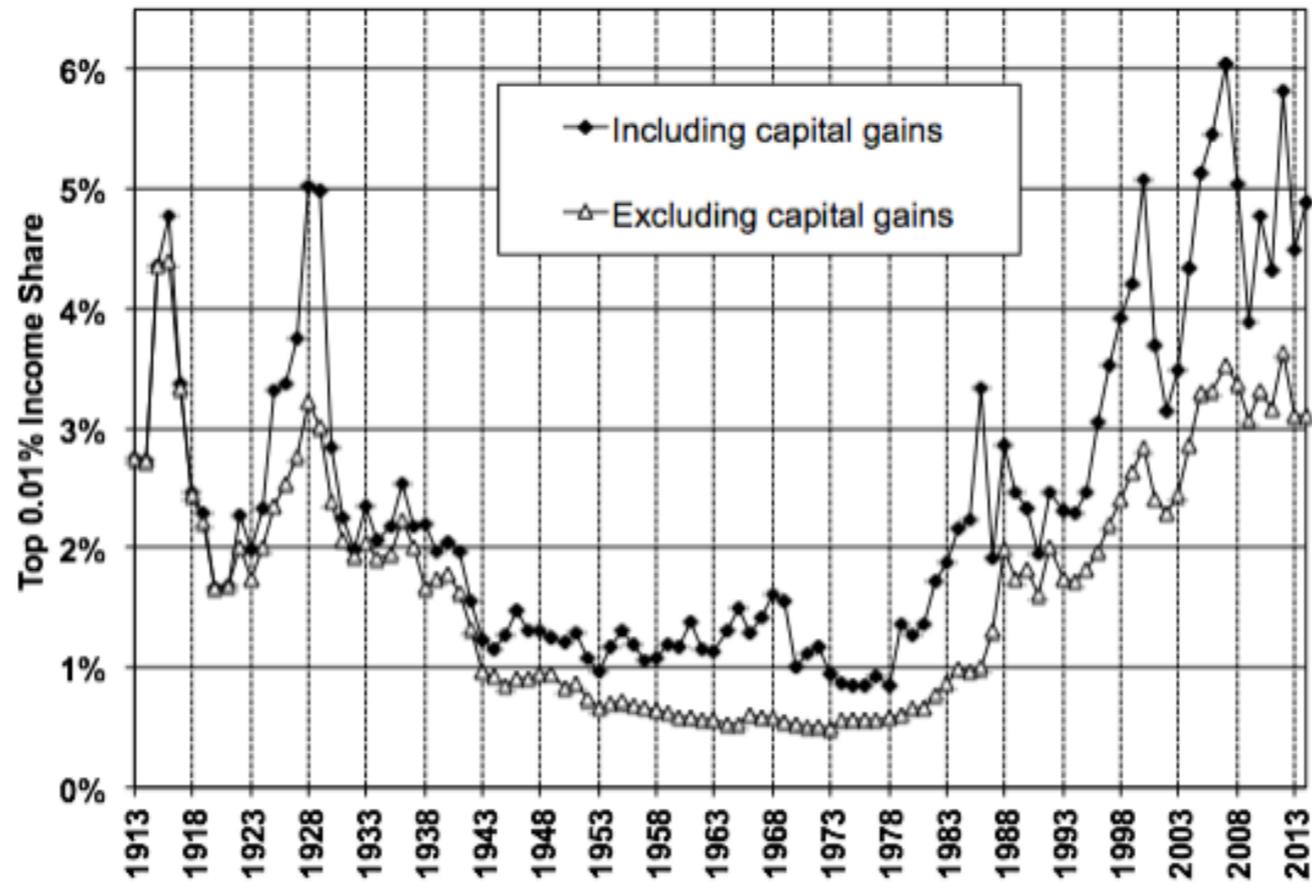
Figure 6: The Top Tenth of the Top One Percent

US Top 0.1% Pre-Tax Income Share and Composition



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including or excluding realized capital gains, and always excluding government transfers.

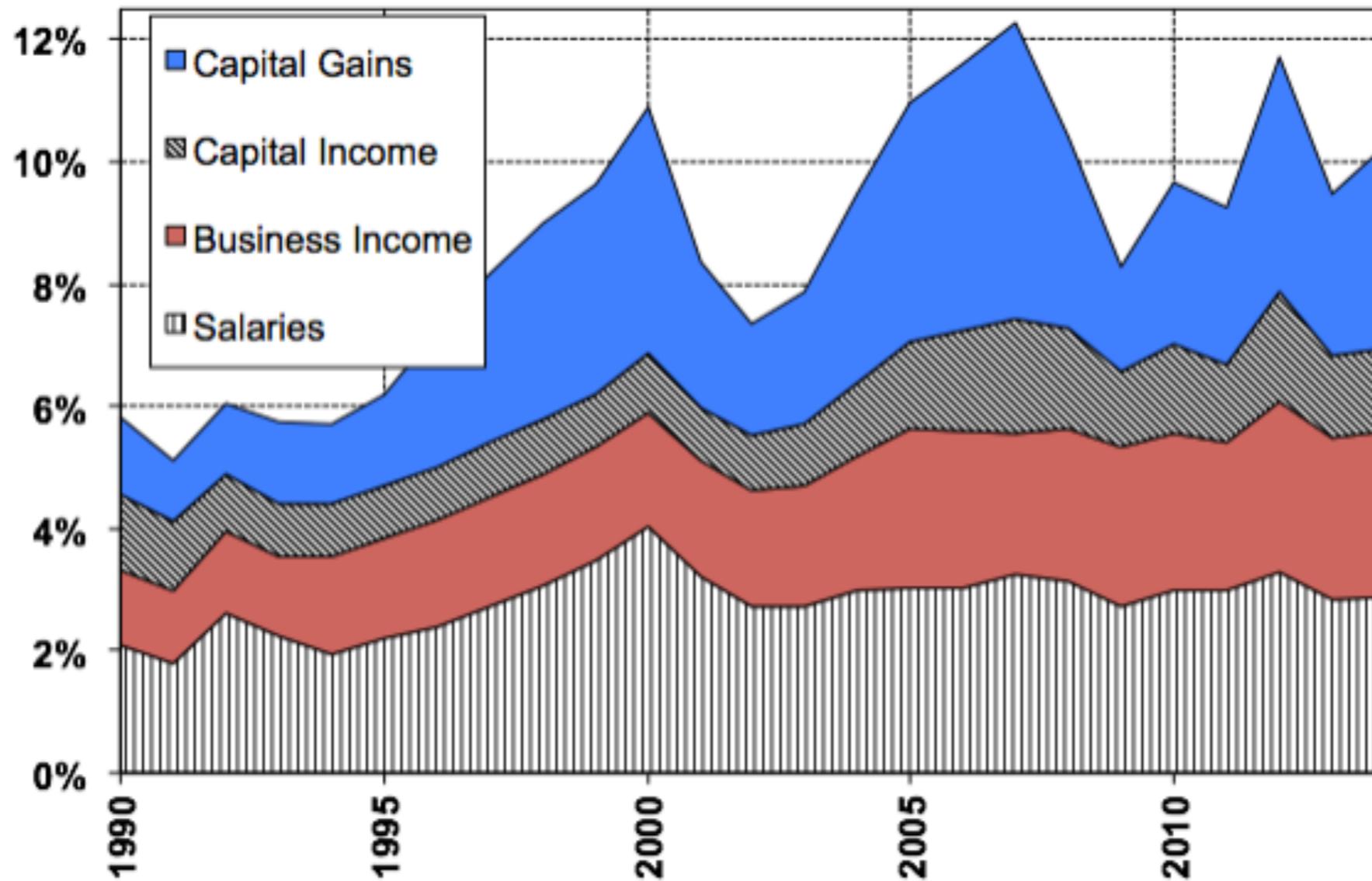
Figure 4: The Top 16,500



The Top 0.01% Income Share, 1913-2014

How many of the top 400 are fund managers? According to Institutional Investor's Alpha magazine, the top 25 hedge fund managers earned at least \$200 million in 2012, with a median of \$350 million.²⁸ Perhaps another 25 made the top 400 AGI.

Figure 7: The Top 0.1% in the Private Equity Era



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including or excluding realized capital gains, and always excluding government transfers.

INEQUALITY

LABOR, NOT CAPITAL

- changes in inequality are mostly attributable to the top 0.1%
 - carried interest, founders' stock, executive compensation
 - not portfolio investments
 - the rich get richer not because their investments do well, but because their compensation is linked to equity

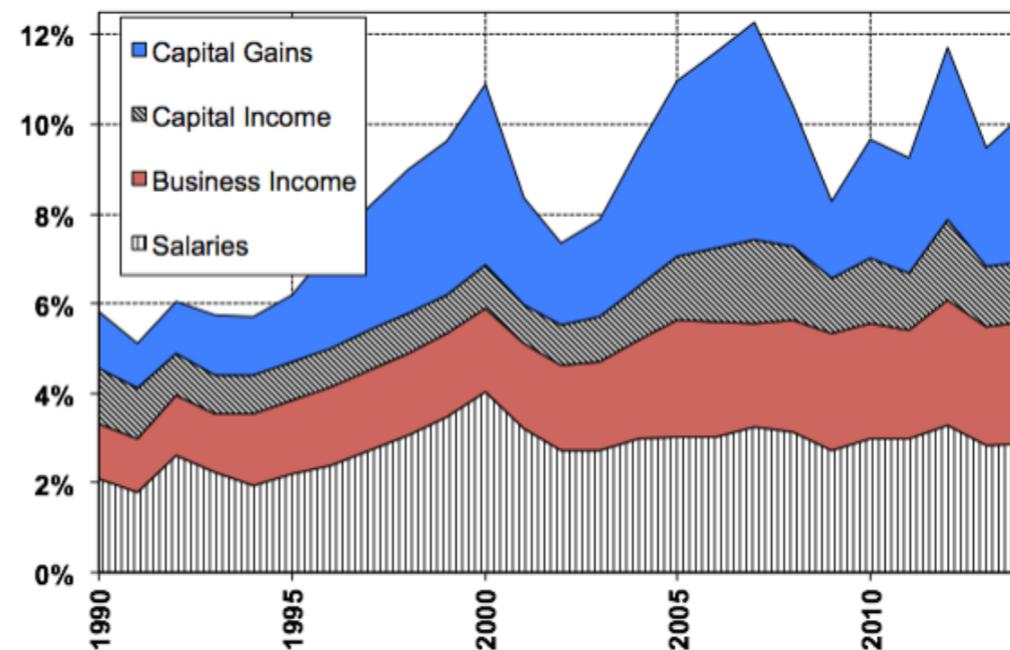
labor is the new capital

ALPHA

CAPITAL GAINS = LABOR INCOME IN DISGUISE

- carried interest, founders' stock, and other forms of alpha income are often reported as capital gains income
- exacerbates top-end inequality
- undermines progressivity at the top
- this is not a "second" tax on saved income, but a first and last tax on labor income

Figure 7: The Top 0.1% in the Private Equity Era



Source: Piketty and Saez, 2003 updated to 2013. Series based on pre-tax cash market income including or excluding realized capital gains, and always excluding government transfers.

revenue

WHAT'S AT STAKE?

TREASURY/JCT ESTIMATES

- Treasury/JCT estimates less than \$2 billion per year in revenue
 - But Schwarzman alone = \$150 million
- Why? Treasury/JCT **elasticity model** treats carried interest as capital income
 - portfolio investors can defer income indefinitely by holding appreciated positions.
 - fund managers sell when the market dictates because funds have a limited time span, and fund managers care about IRR.
- I estimate \$180 billion over ten years

DealB%k WITH FOUNDER ANDREW ROSS SORKIN

How a Carried Interest Tax Could Raise \$180 Billion

JUNE 5, 2015

Standard Deduction

By VICTOR FLEISCHER

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When Hillary Rodham Clinton opened her campaign for the Democratic presidential nomination in Iowa, the first substantive issue she raised was a safe one: carried interest. “There’s something wrong when hedge fund managers pay lower tax rates than nurses or the truckers that I saw on I-80 as I was driving here,” she said.

President Obama also raised the issue at a recent forum on inequality, calling fund managers our society’s “lottery winners.” Taxing carried interest at a low rate is, for many of us, a simple issue of fairness. The richest among us should not pay tax at a low rate on labor income.

DealB%k WITH FOUNDER ANDREW ROSS SORKIN

An Income Tax on Carried Interest Couldn't Be Avoided

JULY 9, 2015

Standard Deduction

By VICTOR FLEISCHER

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The [private equity](#) industry has killed the idea of taxing carried interest as ordinary income. Several times. And yet it returns, relentlessly, like a “Game of Thrones” [reanimated wight](#) from beyond the wall.

Representative Sander Levin, Democrat of Michigan, and Senator Tammy Baldwin, Democrat of Wisconsin, introduced legislation on June 25 that, like earlier legislative proposals, would tax carried interest at ordinary income rates. Under current law, the share of an investment fund’s profits earned by private equity and other private fund managers, known as carried interest, is often taxed at lower capital gains rates.

executive action

EXECUTIVE ACTION

TREASURY CAN FIX CARRIED INTEREST UNILATERALLY

- Treasury **can do it** — it has the legal authority
- Treasury **should do it** — it's right from a tax policy perspective
- Treasury **should do it now** — it's right from a timing perspective

DealB%k WITH FOUNDER
ANDREW ROSS SORKIN

MERGERS & ACQUISITIONS | INVESTMENT BANKING | PRIVATE EQUITY | HEDGE FUNDING

LEGAL/REGULATORY | STANDARD DEDUCTION

How Obama Can Increase Taxes on Carried Interest

By VICTOR FLEISCHER JUNE 12, 2014 2:27 PM 25 Comments



Mr. Obama has used the executive branch's rule-making authority to make policy changes on student loans and other areas. Michael Reynolds/European Pressphoto Agency

President Obama could change the tax treatment of carried interest with a phone call to the Treasury Department. But the White House will need a precise understanding of the regulatory landscape to

thank you