April 20, 2016

The Honorable Jack Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable John Koskinen
Commissioner, Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

The Honorable William J. Wilkins
Chief Counsel, Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Secretary Lew, Commissioner Koskinen, and Chief Counsel Wilkins:

We are writing to urge the Treasury Department and the Internal Revenue Service ("IRS") to require alternative asset managers to disclose the amount of carried interest they received in their annual tax filings. The carried interest tax loophole allows managers of private equity and real estate funds, often some of the wealthiest people in the country, to pay taxes at a lower rate than teachers, firefighters and nurses. It is an unfair tax loophole that must be closed. Until that happens, it is imperative that the IRS gather information so that the American people can understand the true amount of tax revenue forgone by the U.S Treasury each year.

Tax data is the most reliable and readily available source for compiling this information. Private investment fund partnerships should have to report the amount of carried interest paid to general partners in their annual tax filings. This could be done by adding "disproportionate waterfall allocations" (defined as allocations to a partner that are disproportionate to the amount of capital invested) as a separate line on Form 1065 and Schedule K-1. The Treasury Department and the IRS have the legal authority to make this change in reporting, just as it makes changes to many forms every year. Such changes are not interpretations of law subject to the notice-and-comment requirements of the Administrative Procedure Act.

We believe transparency on this issue would be in the best interest of the public and of investors in funds sponsored by these firms. Getting this information in aggregate form would provide needed clarity on the question of how much private equity and other private fund income is actually classified as carried interest. The CBO has produced an estimate that taxing carried interest at regular rates would bring in additional $1.8 billion a year in revenue. Yet one of the foremost academic experts on this matter has estimated that this figure is actually closer to $20 billion a year, a difference of an order of magnitude. In addition, once fund managers are required to report carried interest on their tax forms, it would then also be a routine matter for them to share this information in a standard format with investors in these funds.

Moreover, the information would help the I.R.S. understand and assess the nature of each partners' income, how that income relates to related partnerships and tiered partnerships, and whether the taxpayer has reported transactions in a way that clearly reflects income. Numerous reports have emphasized the need for the I.R.S. to improve the information it gathers about partnerships. See, e.g., GAO-14-153, Report to Chairman, Committee on Finance, U.S. Senate, *Partnerships and S Corporations: I.R.S. Needs to Improve Information to Address Tax Noncompliance*, May 2014. A recent paper estimated that $200 billion annually, or 30% of all income in the partnership sector, could not be traced through from partnership returns to an identifiable taxpayer, often because of tiered partnership structures. See Michael Cooper, U.S. Treasury Dept., et al., *Business Income in the United States, Who Owns It And How Much Tax Do They Pay* (Oct 2015). Having partnerships report carried interest allocations at each level of the structure will help the I.R.S. trace partnership income to the taxpayers who should report it and ensure that less income is "lost" along the way.

Sincerely,

AFL-CIO
American Federation of State, County and Municipal Employees (AFSCME)
American Federation of Teachers (AFT)
Americans for Financial Reform
Communication Workers of America (CWA)
Institute for Policy Studies, Global Economy Project
Public Citizen
Strong Economy for All Coalition
U.S. PIRG
Woodstock Institute

cc: Chairman Orrin Hatch, Senate Committee on Finance
Ranking Member Ron Wyden, Senate Committee on Finance

Chairman Kevin Brady, House Ways and Means
Ranking Member Sander M. Levin, House Ways and Means