Senator Klein introduces legislation to close 'carried interest' loophole that allows fund managers to pay less taxes than teachers, lawyers or janitors

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New York State could see $3.7 billion in tax revenue once loophole is closed

Albany, NY— State Senator Jeff Klein (D-Bronx/Westchester) introduced legislation on Wednesday to close the "carried interest" loophole that allows fund managers to avoid paying the appropriate tax rate on their work product.

The bill creates a 19% "carried interest fairness fee" on income earned by fund managers on investment management services. The tax would be paid to the State of New York and is expected to bring in $3.7 billion in revenue each year.

"Throughout my career I've looked for ways to recoup taxes for the people of New York State like when I fought against bootleg cigarettes. It's unconscionable when teachers, lawyers and janitors pay a higher tax rate than a fund manager because of a broken tax system. Fund managers must pay the same tax rate for the fruits of their labors and New York will work with surrounding states to make sure this happens. Congressional gridlock will not stop us from fixing this loophole and finally collecting the taxes due to the state for work performed on Wall Street," **said Senator Klein.**

Currently fund managers take a 2% cut from clients, which is taxed as labor, and receive an additional 20% known as "carried interest," but it is not taxed as work.

While labor is taxed at a 39.6% rate, the 2 and 20 structure leaves a 19.6% loss in tax revenue to federal and state governments.

New York legislators are working with surrounding states like New Jersey, Connecticut and Massachusetts to enact the same legislation simultaneously.

States have been left to take action as a result of Congressional gridlock. The "carried interest" loophole, however, is in the national spotlight with leading presidential candidates on both sides of the aisle embracing a change to this inequity in the law.

Senator Klein's bill won praise from the Strong Economy for All Coalition and the Patriotic Millionaires.

"Taxing the carried interest income of hedge fund managers and private equity investors can raise several billion in revenue for schools, housing, jobs, targeted tax relief for working people and seniors as well as investments in infrastructure across New York. Closing the carried interest loophole at the state level is a long overdue reform with bipartisan support. We applaud Senator Jeff Klein and his colleagues in state government for standing up for tax fairness and for the needs of our communities," **said Michael Kink, a leader of the Hedge Clippers and executive director of the Strong Economy for All coalition.**

New York's private equity and hedge funds are conservatively estimated to be earning $15.6 billion per year in under-taxed carried interest. The new legislation to close the carried interest loophole at the state level would add an estimated $3.7 billion additional dollars to New York's coffers, a recent Hedge Clippers report reveals.

"'Carried Interest' is a loophole that has no foundation in ethics, in morality, and no intellectual foundation," **said Patriotic Millionaire Leo Hindery, Jr.**, "you can't trust the federal system to fix itself, you have to take the system and shake it up."

"I am in the hedge fund and private equity business and the carried interest loophole is welfare for the wealthy," **said Patriotic Millionaire Terence Meehan, Chairman of Azimuth Investment Management.**

"We can't have each person deciding for themselves how much tax to pay. We as a society as voters, represented by our legislatures, that's where the decision has to be made for everyone," **said Patriotic Millionaires Chair Morris Pearl, former Managing Director at BlackRock, Inc.**

"I think the real mystery is how this tax break for millionaires has managed to survive all these years when everyone knows that it makes no sense for people who have no capital at risk to receive this kind of favorable tax treatment,"**said Patriotic Millionaire Jeffrey Gural, Chairman of Newmark Grubb Knight Frank.**

"The concept of taxing "carried interest" as capital gains makes no logical sense. Let's be clear, a carried interest is portion of the capital gain of a fund's investors, not the fund manager. It's basically a form of profit sharing, which for the rest of us is considered ordinary compensation. If it quacks like a duck it should be taxed like a duck!" **said Patriotic Millionaire Frank Patitucci, CEO & Owner of NuCompass Mobility.**

The bill is carried in the Assembly by **Assemblyman Jeffrion Aubry (D-Queens)**.