# NEWS from the FISCAL POLICY INSTITUTE

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# City Could Raise Revenues and Level Playing Field for Business

*New report shows $160-$225 million slipping through loophole that benefits private equity and hedge fund billionaires*

At a time of tight budgets and economic downturn, what if New York City could raise about $200 million in new revenue that could help pay for critical investments in schools, subways, and health care—while at the same time improving the business climate by leveling the playing field for New York businesses?

According to a new report by the Fiscal Policy Institute released on "tax day," April 15, that's exactly what would happen if the city and state were to close an arcane tax loophole that applies to some of the world's richest individuals, quite a few of whom live and work in New York City.

The report finds that New York City would increase its revenues by $160-$225 million annually if it stopped exempting "carried interest" from city taxes.

The term "carried interest" may be unfamiliar to most New Yorkers, but it's a commonplace in the high-flying world of private equity and hedge fund management. Typically, managing partners in private equity and hedge funds are paid in two ways: a two percent management fee on invested capital, plus "carried interest," a 20 percent share in the profits generated by the investments made by limited partners.

The funds are generally structured as partnerships, making the two percent fee subject to the city's Unincorporated Business Tax (UBT). But "carried interest"—a form of compensation to management that can amount to millions or tens of millions of dollars per year—is exempted from the UBT.

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Fixing the problem would not be difficult, according to James A. Parrott, chief economist and deputy director of the Fiscal Policy Institute. The exemption for "carried interest" should be narrowed so that it applies only to income based on one's own invested capital and not to compensation for managerial services. "The carried interest exemption lets many ultra-wealthy private equity and hedge fund managers pay a lower effective business income tax rate than thousands of smaller New York City businesses. It's time for city and state lawmakers to level the playing field for all businesses and stop throwing favors at the fortunate few."

The full report is available at www.fiscalpolicy.org.

*The Fiscal Policy Institute (FPI) is a nonpartisan research and education organization that focuses on the broad range of tax, budget, and economic public policy issues that affect the quality of life and the economic well being of New York State residents.*

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