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Daily Tax RealTime

Today's Updates

Camp Hits Carried Interest in Tax Plan With Wall Street in Focus

Posted February 25, 2014, 10:29 P.M. ET

The top Republican tax writer in Congress will lean on the financial industry with his planned revamp of the U.S. code, changing the treatment of carried interest and imposing a levy on the assets of banks and insurers.

House Ways and Means Committee Chairman Dave Camp (R-Mich.) is to unveil the proposed tax code changes Feb. 26 that also include revisions that affect how investment fund managers' compensation is taxed. He offered a preview tonight using rhetoric that in part echoes President Barack Obama's own calls to change tax laws.

"We can clean up provisions like 'carried interest' that allow certain private-equity firms to get the investment-income tax rate on what anyone else would call normal wage income," Camp wrote in an opinion article posted late Feb. 25 on The Wall Street Journal's website.

The carried-interest proposal comes on top of a Camp plan to impose a tax on the assets of the largest U.S. banks and insurers. Even though his plan faces long odds in Congress this year, the proposal will become a benchmark for tax policy.

Under current law, carried interest, or the profits share received by private equity managers, gets treated as capital gains, with a top basic rate of 20 percent as opposed to the ordinary income rate of 39.6 percent.

Obama and other Democrats have been trying since 2007 to change that law with little success. Camp is wrapping a change to carried interest inside a reconstruction of the tax code that would lower tax rates and broaden the tax base.

Steve Judge, president and chief executive officer of the Private Equity Growth Capital Council, an industry trade group, said Camp's proposal was "disappointing."

"Key policy makers from both parties have already made clear that the discussion around this draft proposal will be brief," Judge said in a statement Feb. 25.

"Nevertheless, Chairman Camp's proposal penalizes long-term capital investment, which he and other members of the House Ways and Means Committee have purported to support."

Camp also previewed several other elements of the plan. Corporate jets wouldn't get faster write-offs, also mirroring Obama's proposal. Some owners of small businesses such as law firms wouldn't be able to escape payroll taxes on some of their income. And taxpayers who contribute more than \$8,750 to retirement accounts would be pushed into Roth-style plans, which generate up-front revenue for the government.

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