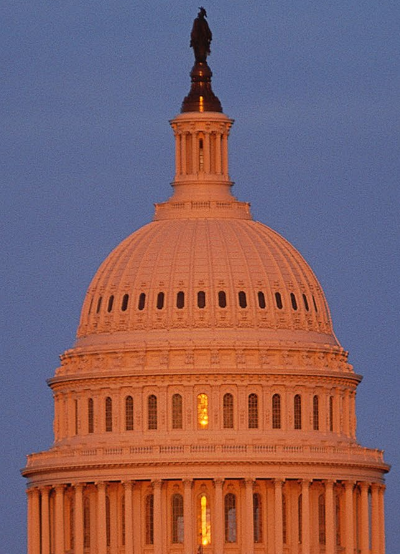

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Senate Finance Chairman Wyden releases legislation addressing the treatment of carried interests

U.S. Senate Finance Committee Chairman Ron Wyden (D-OR), along with Senators Sheldon Whitehouse (D-RI) and Angus King (I-ME), yesterday re-introduced legislation that would address the treatment of carried interests, and require fund managers to recognize a deemed compensation amount annually, taxed at ordinary rates and subject to self-employment taxes. This legislation has been released in previous Congresses without passage and its prospects appear similarly uncertain in the current Congress.

The framework of Wyden's carried interest bill differs significantly from the version included in an early draft of the Inflation Reduction Act (IRA) and the Build Back Better Act (BBBA), along with previously introduced bills that addressed only the re-characterization of "carried interest" income as investment income. Notably, the bill introduced by Wyden addresses the deferral of fund manager income.

Analogizing a carried interest to an interest-free loan from the investors to the manager, the bill would calculate a fund manager's deemed compensation amount by applying a standard rate of return to the portion of the investors' capital used to invest for the manager's own account. The fund manager realizes a long-term capital loss equivalent to the deemed compensation amount, thus preventing the transformation of compensation income into lower-taxed capital gains. Read *TaxNewsFlash*

Documents

- Legislative text [PDF 49 KB]
- Detailed summary [PDF 167 KB]
- One-page summary [PDF 82 KB]

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