

December 7, 2009

## Rangel Introduces Latest Carried Interest Tax Proposal

Congressman Charles Rangel, Chair of the House Ways & Means Committee, today re-introduced legislation that would tax certain carried interest income at ordinary income rates rather than at capital gains rates. The proposed legislation, which would be effective for taxable years beginning after December 31, 2009, would apply to carried interests in partnerships where the partner holds an "investment services partnership interest." An investment services partnership interest is an interest held by a person who provides advisory, management, financing and other supporting services with respect to the acquisition, holding or disposing of securities, rental real estate, interests in partnerships, commodities, or options or derivatives with respect to any of the foregoing.

The proposal covers the same ground as a number of previously introduced legislative attacks on carried interest, including provisions designed to deny taxpayers the ability to achieve indirectly what they will no longer be able to achieve directly by holding carried interests. Importantly, however, the proposal does not extend ordinary income treatment to activities outside of the realm of securities, rental real estate and commodities, as some had expected might be the case. Thus, for example, gains on carried interests in non-investment operating businesses will still be eligible for capital gains treatment.

This is the first step in what may be a complex process (including possible opposition in the Senate), and we will keep you up to date on significant developments.

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