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Private Equity Partners Get Rich at Taxpayer Expense

By Eileen Appelbaum and Rosemary Batt*

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Center for Economic and Policy Research
1611 Connecticut Ave. NW
Suite 400
Washington, DC 20009

tel: 202–293–5380
fax: 202–588–1356
www.cepr.net

* Eileen Appelbaum is a Senior Economist at the Center for Economic and Policy Research. Rosemary Batt is the Alice Hanson Cook Professor of Women and Work at the ILR School, Cornell University. She is also a Professor in Human Resource Studies and International and Comparative Labor.

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"Private equity is essentially a giant tax gimmick with an acquisition attached. Funds employ a lot of tax talent."

Lee A. Sheppard, Tax Notes[1]

Introduction

As the Trump administration and the Republican controlled Congress prepared in June to turn their attention to tax reform, they made clear their intention to develop their proposed revision of the U.S. tax code in secret. The plan, apparently, is to remake the tax system behind closed doors in meetings that include only top Republican Congressional leaders, excluding most Republicans, all Democrats, and the American public from the deliberations. Trump's top economic advisor, former Goldman Sachs executive Gary Cohn, is on record saying, "We don't want to be negotiating the tax bill on the floor [of Congress]." [2]

In April 2017, the administration put out a one-pager that signaled what its tax proposals will include. Billed as tax reform, the document instead proposed massive tax cuts for business that will benefit Trump, his family, and his wealthy friends.[3] The tax system already serves to enrich the wealthy and, as we learned from the Republican health care plan, more tax cuts for the rich and richer will come at the expense of programs and services that middle and working class families need. According to the Congressional Budget Office (CBO), the Senate health care plan put forth by the Republicans would provide $541 billion over 10 years in tax breaks for the wealthy and another $210 billion in other reductions to the Treasury while reducing federal payments for Medicaid — a program that covers high cost care for preemies, pays for nursing home care for the elderly, gives the poor access to health insurance, and provides services to disabled children and adults that enable them to participate in school, work and their communities.[4] This tax "reform" can be expected to produce more of the same.

Private equity millionaires are among those who benefit most from the current tax system and who may have the most to gain from some of the massive tax cuts outlined in Trump's tax plan. In this issue brief we examine the ways in which the current tax code benefits private equity firm partners. True tax reform would seek to make the tax code fairer and would redress the unfair advantages enjoyed by this, and other, special interest groups.

1 Lee (2015).
2 Associated Press (2017).
3 Appelbaum (2017).
4 Golshan (2017).

Private equity gains an unfair advantage under the current tax system in several ways that are largely unavailable to other businesses. Included in this briefing paper are the most important ways in which private equity reduces its tax contributions.

- Excessive use of debt
- Tax arbitrage
- Pass through entities
- Carried interest loophole
- Management fee waivers
- Management Services Agreements (monitoring fees)
- Exception to publicly traded partnership rule

Excessive Use of Debt

Leverage — the use of debt financing — is an important source of private equity earnings, due in part to the favorable treatment of debt in the tax code. A company's interest payments on its debt are tax deductible, thus reducing its tax liabilities. The tax benefits of debt encourage companies to employ inefficiently high debt levels and to engage in tax arbitrage to reduce tax payments. Private equity firms typically purchase companies via leveraged buyouts (LBOs) and make those companies private so that they are not subject to the scrutiny of outside investors or the financial reporting pressures and oversight by the Securities and Exchange Commission (SEC) that publicly traded companies face.

The tax advantages of debt, of course, hold for any company — not just companies owned by private equity. But private equity-owned companies carry much higher debt loads than publicly traded companies — often two to three times the level. Private equity's high use of leverage is unrelated to the factors (such as size, R&D intensity) that typically explain the capital structure of publicly traded companies. High leverage is at the heart of the private equity business model because debt multiplies returns. Low interest rates and the availability of financing facilitate private equity's use of a highly leveraged capital structure when it acquires portfolio companies.[5] The average leverage ratio in PE-owned companies during the 2005–2007 boom was 75 percent debt. In contrast, the capital structure of a publicly traded company at that time was 75 percent equity.[6] Thus, PE-owned companies receive a considerably greater tax benefit than other companies from the use of leverage. In addition, tax savings from the increase in debt can offset the interest payments on the debt.

5 Axelson, Jenkinson, Strömberg, and Weisbach (2008).
6 Chakraborty, Weisbach, and Zhou (2009).

It is the portfolio company, not the PE firm nor the PE fund that acquired it, that must repay the debt its private equity owners used to acquire it. Thus the increased risk of bankruptcy inherent in the excessive use of debt falls on the portfolio company, its employees, and its creditors. If, despite its debt burden, the company is successful, the high use of debt magnifies the returns to private equity.

Leverage benefits the PE owners of a portfolio company in a second way as well. The reduction in taxes from the higher interest deductions associated with more debt increases the PE portfolio company's enterprise value. Lower taxes due to increased leverage may account for 10 to 20 percent of the company's value.[7] Thus, the enterprise value of the company, and the gain to its private equity owners, is increased by excessive use of leverage without a corresponding increase in economic wealth. These increased earnings for private equity investors represent a net loss for the tax-paying public, which is asked to pay higher taxes or face cutbacks in services as a result. In the case of leveraged buyouts of publicly traded companies, the debt-to-equity ratio generally rises substantially. Publicly traded companies are subject to greater financial reporting pressures and oversight by the Securities and Exchange Commission (SEC). The use of debt increases when these companies are taken private and are no longer subject to SEC regulations and scrutiny by outside investors.

President Trump indicated in his April tax policy outline that he wants to limit or eliminate the tax deductibility of business interest payments. This is a welcome development and would be an effective deterrent to the use of debt as a tax strategy. However, the private equity industry and other Wall Street players are lobbying against it — and they have powerful influence in Washington via their contributions to the Trump campaign and the presence of PE partners in top posts in the Trump administration — including Wilbur Ross at Commerce, Steve Mnuchin at Treasury, and Economic Advisors Carl Icahn, John Paulson, Stephen Feinberg, and Steven Schwarzman.

Tax Arbitrage

Private equity firms also make extensive use of tax arbitrage — that is, the use of tax strategies to reduce federal and state taxes a company is required to pay. Tax arbitrage refers to the restructuring of a company or its financial structure for the primary purpose of reducing tax payments; and it can generate substantial tax savings that pass through to the bottom line and benefit a company's shareholders. While legal, its only purpose is to alter tax structures to provide investors with greater gains.

7 Kaplan and Strömberg (2009).

These strategies are not unique to private equity, as attested by GE's ability to minimize federal tax payments and Microsoft's actions to reduce its tax payments to Washington State. But they are employed more widely in PE-owned companies than in similar publicly traded companies.[8] That is because many Main Street companies lack the scale, resources, and political clout of a GE or Microsoft and are not able to successfully pursue tax avoidance strategies: the costs of hiring the necessary tax experts are too high and the risks of running afoul of the IRS are too great. By contrast, large PE sponsors — such as KKR, Blackstone, Bain, Carlyle, and Apollo — can well afford the elite law firms and tax specialists required for their portfolio companies to aggressively engage in tax arbitrage. More generally, a company must weigh the benefits of a more complex organization designed to reduce tax payments against any increase in transactions costs that result from this gamesmanship. For a large private equity firm that owns many portfolio companies, the payoff can be considerable. Talent and resources that could otherwise be used to produce economic wealth are, instead, diverted to the highly remunerated but socially unproductive activity of reducing tax payments of portfolio companies. This is a very large dead weight loss for the economy that produces gains for the PE owners of the portfolio companies, but at the expense of the tax paying public.

Pass Through Entities

Under the US tax code, private equity firms qualify as pass-through entities (partnerships, tax code subchapter S corporations, and sole proprietorships) that are not subject to corporate income tax. The income of pass-through entities passes directly to their owners and is only taxed under whatever tax rules those owners as individual earners face. Thus, pass-through income is the net income of a business that passes through to a business owner or partner and is taxed at that individual's tax rate. The net income received by an individual who is the sole owner of a business (like a bakery or deli) is an example of pass-through income. So is the net income of high flying partnerships that is distributed to the wealthy partners in private equity firms, hedge funds, and Wall Street law or tax accounting practices. President Trump, who is a partner in hundreds of real estate ventures and other businesses, receives pass-through income.

The use of pass-through entities has more than doubled since 1980. They accounted for 20.7 percent of U.S. business income in 1980, but 54.2 percent in 2011. Over roughly the same period, the income share of the top 1 percent of income earners doubled. These two phenomena are linked: the growth

8 Badertscher, Katz, and Rego (2011).

of income from pass-through entities accounted for 41 percent of the rise in the income of the top 1 percent and over 66 percent of pass-through business income goes to the 1 percent.[9]

During the campaign, Trump proposed reducing the top tax rate on pass-through income — which is now 39.6 percent — to 15 percent, a tax break that would benefit him and most PE partners tremendously.[10] Speaker Paul Ryan's proposed tax plan would reduce the top rate to 25 percent. Both are selling this tax cut by claiming this tax rate reduction will benefit small business owners and grow the economy. In reality, however, these proposed cuts in the pass-through tax rate benefit only a small number of wealthy business partners including hedge fund and private equity firm partners; the majority of business owners and partners are already taxed at rates lower than those proposed by Ryan or Trump. That is because only the wealthiest business partners pay a high marginal tax rate. The vast majority of recipients of pass-through income — owners or partners in small businesses like a dry cleaner or neighborhood restaurant — is taxed at much lower rates. Indeed, more than 70 percent of business owners and partners are taxed at a marginal rate of 0, 10, or 15 percent; another 17 percent are taxed at 25 percent. Only the wealthiest partners — many with incomes in the hundreds of thousands of dollars or more — are taxed at a marginal rate of 33 percent or higher, and less than 2 percent are taxed at the 39.6 percent top rate.[11]

Carried Interest Loophole

Carried interest — the share of a private equity fund's profits claimed by the fund's general partner (GP) — is a substantial part of the earnings of partners in private equity firms. It is taxed at the capital gains rate rather than at the higher ordinary income rate that most wealthy individuals pay. The agreement between a PE fund's investors — its limited partners (such as pension funds) — and the fund's general partner (typically a committee of partners in the PE firm that sponsors the fund) stipulates that the GP will receive a share of the funds' profits — its carried interest. The typical Limited Partner Agreement (LPA) awards the GPs 20 percent of the gains from investments in portfolio companies once the fund achieves a "hurdle" rate of return, typically 8 percent.

General partners hold decision-making power over a PE fund's investments, while the limited partners (LPs) are positioned as passive investors with no influence over these decisions. The GPs' investment decisions determine how the fund performs and how much carried interest is generated. Thus, carried interest is performance-based pay similar to the bonuses earned by managers in publicly traded

9 Cooper et al (2015). Summary available at https://www.nber.org/digest/jan16/w21651.htmlhttps://www.nber.org/digest/jan16/w21651.html.
10 Sanders (2017).
11 Marr et al (2017).

companies, the sales commission earned by real estate brokers, or the profit sharing enjoyed by steel workers[12] going back more than a century. Yet unlike these other forms of performance-based pay, which are taxed as ordinary income, carried interest is taxed at the lower capital gains rate of 20 percent, rather than at the 39.6 percent marginal tax rate that high income earners pay on ordinary income. This is a tax break that even Wall Street cannot defend. [13]

Carried interest is the most important dimension of the low risk, high reward incentive system in PE firms. PE general partners typically have very little of their own capital at risk. They put in only $1 or $2 for every $100 contributed by the fund's limited partners. The use of debt further reduces the GP's contribution to the purchase. If a portfolio company is acquired with 30 percent equity and 70 percent debt, the GP has just 0.6 percent (.02 * .30 = .006 or 0.6 percent) of the purchase price at risk. Yet, the GP receives 20 percent of all investment profits. This compensation formula creates perverse incentives for the general partners and encourages them to take on excessive risk — i.e., more risk than is socially optimal. They risk little if one of their portfolio companies fails, but take a disproportionate share in the gains when a company is sold — typically within a five-year window.

This formula for carried interest pay-outs to PE general partners leads them to make greater use of debt in leveraged buyouts because debt magnifies the returns to investing in portfolio companies and raises the carried interest pay out to the fund's general partner. In addition, the tax treatment of carried interest increases the incentives for private equity to make excessive use of debt. But greater debt in the capital structure of portfolio companies also makes them more vulnerable to financial distress or bankruptcy; and in fact, even before the financial crisis PE-owned companies had twice the bankruptcy rates of comparable publicly traded companies.[14] Thus, while the gains accrue to the PE general partners and the fund's limited partner investors, the losses fall mainly on the company's employees, customers, suppliers, creditors, and community. The fund's general partner — that is, the PE firm — has the least to lose in the event that a portfolio company becomes bankrupt. This creates a classic moral hazard situation: PE partners can focus on the gains from a risky strategy rather than the possibility of losses because the downside consequences will fall primarily on other actors.

The importance of carried interest in private equity compensation is illustrated by the handful of leading private equity firms that are publicly traded and required to report the earnings of their top executives.[15] In 2012, Stephen Schwarzman, co-founder and CEO of Blackstone Group, received $350,000 in salary and $8.1 million from his share of the firm's carried interest. Tony James,

12 Moore (2015).
13 Financial Times Editorial Board (2016).
14 Strömberg (2008).
15 Private Equity Manager (2013a).

Blackstone's president and chief operating officer, received $350,000 in salary, a $30.1 million bonus, and $2.8 million in carried interest. Henry Kravis and George Roberts, KKR & Company's co-founders and co-CEOs, each received $300,000 in salary and $34.7 million in carried interest. Median pay (base pay, bonus, and carried interest) in 2012 of senior deal makers in PE firms, while not quite at these levels, was still a rich $1 million.[16]

Many in the private equity industry understand that treating compensation for services — managing an investment fund — as capital gains income is a tax break that cannot be justified.[17] During the Obama administration, several bills proposing to eliminate the carried interest loophole were introduced in Congress, some with bi-partisan support, but none passed. In 2013, the Office of Management and Budget estimated that taxing it as ordinary income would raise nearly $12 billion in 2014–2018, and $16 billion in 2014–2023.[18] Congress urgently needs to eliminate the carried interest loophole in the tax code and tax carried interest as ordinary income.

Management Fee Waivers

Another source of income for private equity GPs is an annual management fee paid by the limited partners — typically 2 percent of the capital that the LP has committed to the fund. General partners receive this fee income regardless of how the fund performs. In the case of a fund with a 10-year life span, a two percent annual management fee translates into fees over the life of the fund of 20 percent of committed capital, leaving only 80 percent available for investment. Thus, management fees are a significant cost to the LPs and a major source of income for the general partner. In recent years, LPs have challenged this arrangement, and there is evidence that fees have declined for some LPs — primarily for the larger and more influential private equity investors. But management fees remain a major source of income for PE general partners.

Private equity partners, however, use a strategy known as a "management fee waiver" to turn some of this fee income into carried interest income that is taxed at the capital gains rate rather than as ordinary income. Here, the PE fund's general partner "waives" part, or all, of the management fee that the limited partners pay for management services. In exchange, the general partner gets a priority claim on profits earned by the fund. This sleight of hand turns the ordinary income the manager would have received for providing management services into capital gains income, and reduces the tax rate on this income from as much as 39.6 percent to 20 percent. This is the tax equivalent of turning water into

16 These figures do not include dividends received from ownership of stock in their PE firms. These cash dividend payments varied from James' $33 million to more than $100 million for Kravis and Roberts, and $204 million for Schwarzman.
17 Private Equity Manager (2013b).
18 Office of Management and Budget (2013).

wine. This tax alchemy might be acceptable if the conversion of management fee income into profit income involved any real risk that the PE fund managers might not ultimately get paid their waived fee. However, these waivers are structured to all but guarantee that the PE fund's general partner will be paid, with no actual risk involved.[19] To state this more precisely, in a management fee waiver, the GP waives the fixed management fee and receives in its place a priority claim on the fund's gross or net profits *from any accounting period* equal to the foregone fee. It is the rare PE fund indeed that never shows a profit in any accounting period. In other words, these fee waivers are window-dressing designed solely to allow fund managers to pay capital gains on what is effectively their fixed salary income.

In 1984 Congress passed section 707(a)(2)(A) of the tax code to address this precise situation. As the statutory text and legislative history make abundantly clear, this provision disallows the claimed tax benefits from fee waivers in cases where the fund manager does not bear significant entrepreneurial risk. Management fee waivers by private equity firms rarely, if ever, satisfy this condition.

It is not possible to know precisely how much tax revenue has been lost due to abusive fee waivers because the total amount of fee waivers by the private equity industry is not publicly available. However, during the Romney campaign for president we learned that his private equity firm, Bain Capital, had waived in excess of $1 billion in management fees over the preceding 10 years and claimed approximately $250 million in tax savings.[20] With management fee waivers used by a majority of U.S. private equity firms for at least the past 15 years, the revenue loss to the IRS from abuse of section 707(a)(2)(A) is likely to be in the billions of dollars.[21]

Having failed to enforce this section of the tax code even as this tax dodge became more popular and blatant over the last 15 years, the IRS and Treasury finally proposed new regulations in July 2015 to clarify the intent of the provisions governing management fee waivers — what the IRS refers to as disguised payment-for-services transactions. The proposed regulations put PE firms on notice that the tax code does not permit PE fund partners to reduce the taxes they owe by disguising payments for the management services they provide as capital gains. In fact, recent reports suggest that significant IRS audit activity focused on fee waivers was underway in 2016.[22] While the IRS did not finalize this clarification of the intent of the tax code before the end of the Obama administration, it appears that private equity firms have nevertheless reined in their use of management fee waivers.

19 Polsky (2014a).
20 Norris (2012).
21 Polsky (2014a).
22 Elliott (2016).

Management Services Agreements (Dividends Disguised as Monitoring Fees)

PE firms also enrich themselves by charging fees to portfolio companies. Monitoring fees are an especially egregious form of kickback to the PE firm. These fees are spelled out in the Management Services Agreement (MSA) that the PE firm requires the portfolio company to sign at the time the portfolio company is acquired. The terms of these agreements are not publicly available nor are they shared with the pension funds and other limited partners in the fund that owns the portfolio company.

Portfolio companies ostensibly pay monitoring fees to the PE general partners for advisory and other services over and above the services, which are intended to improve operations, already covered by the annual management fees that LP investors pay. The portfolio company has little choice but to accept the Management Services Agreement proposed by the PE firm because the GPs who charge these fees also hold seats on the Board of Directors of the portfolio companies — giving them the authority to approve these fees.[23] Frequently, the MSA states that the private equity firms that own these companies are not obligated to commit any minimum amount of time to monitoring the progress of the companies.

An illustrative case is the MSA for Energy Future Holdings (EFH), acquired by KKR, TPG Capital, and Goldman Sachs PE unit for $45 billion in the largest ever LBO. Among other payments EFH was required to make to the three PE firms, the MSA specified that EFH would pay them an annual advisory fee of $35 million, with the fee to rise by 2 percent each year. However, the MSA failed to specify the scope or duration of services provided for this fee. Similar monitoring fees, but with slightly different terms and conditions, are found in the MSAs for the $33 billion buyout of Hospital Corporation of America (HCA), the $27 billion buyout of Harrah's (now Caesars') Entertainment, and a smaller $3.3 billion buyout of West Corporation.[24]

"Accelerated monitoring fees" are even more egregious extractions of funds from portfolio companies. Here, the PE firm signs a monitoring agreement with the portfolio company that covers a 10-year period. If the portfolio company is sold after 5 years, the remaining 5 years of monitoring fees must be paid off even though the PE firm no longer owns the company, so they cannot possibly monitor it. "Evergreen monitoring fees" are even worse: The monitoring fee agreement renews annually for 10 years and a full 10 years of monitoring fees has to be paid when the portfolio company is sold. Examples of this practice are shown in **Table 1**.

23 Phalippou, Rauch, and Umber (2015).
24 Ibid.

TABLE 1

Examples of Accelerated Monitoring Fee Pay Outs

(dollars)

Accelerated payments received by buyout firms after shedding holdings

Company	Lead Private Equity Firm(s)	Year Triggered	
HCA Holdings	Bain, KKR, Merrill	2011	$181.0M
Biomet	Blackstone, KKR, TPG, Goldman Sachs	Pending	$88.0M
SeaWorld	Blackstone	2013	$46.3M
Realogy Holdings	Apollo	2012	$40.0M
GoDaddy	KKR, Silver Lake	Pending	$25.0M

Source: Adapted from Securities and Exchange Commission filings, Maremont and Spector (2014).

PE firms are supposed to share these monitoring fees with the LPs in the fund that owns the portfolio company as an offset to the 2 percent management fee that LPs pay the fund's GP. But vague and confusing wording in Limited Partner Agreements has meant that too often the pension funds and other investors in private equity funds have not received all of the fee income that is owed them; instead, it has been pocketed by the PE firm.[25]

Pension funds and other PE investors go along with this arrangement under the mistaken notion that the monitoring fees are saving them money via reduced management fees. However, the extraction of large monitoring fees reduces the retained earnings of a portfolio company that are available for it to invest in improving its performance — ultimately shrinking its resale value. A lower price at exit reduces the return to the private equity fund's investors so that, indirectly, monitoring fees come out of the pockets of the limited partners. Thus, when the lower profit on the resale of these companies is taken into account, it is clear that there has been no cost saving to the investors in the PE fund.[26]

Monitoring fees are also a potential tax scam. Under the federal income tax law, compensation paid to service providers (in this case the PE firm) is generally tax deductible for the payer (in this case the

25 Bowden (2014).
26 Phalippou, Rauch, and Umber (2015).

portfolio company), while dividends are not. This dichotomy creates a well-known incentive for private equity firms to disguise dividends as compensation for services. To qualify as compensation for services and, hence, be deductible, payments must satisfy two conditions: (1) the portfolio company must have compensatory intent — that is, it must intend for these payments to compensate the service provider for services actually provided, and (2) the amount of the payment must be reasonable in relation to the services that are being performed. When these two conditions are met, the portfolio companies paying the monitoring fees may deduct them from their income as ordinary business expenses, thereby reducing the taxes they owe.

Several features of monitoring fee agreements between a private equity firm and a portfolio company it has acquired, however, suggest that the payments are actually disguised dividends and not payments for monitoring services. In particular, these payments appear to lack the requisite compensatory intent. First, the agreements are not arms-length transactions. The private equity firm appoints the acquired company's board of directors, takes a large number of seats on the board for itself, and selects the company's top management. Second, the agreement to pay fees to the private equity firm for monitoring and advisory services often provides that it is the private equity firm and not the company contracting for the services that will decide whether and when to provide any services as well as the scope of any services to be provided. Indeed, the contract often requires that monitoring fees be paid regardless of whether or not any services are provided. And third, when multiple private equity firms take over a company, the monitoring fees are typically allocated among the firms on a pro rata basis in accordance with the shares controlled by each firm and not on the basis of how a priori the workload is shared.

These facts are flatly inconsistent with compensatory intent. This suggests that in many cases monitoring fees are not payments for services, but are in fact dividend payments to the private equity firms and should be taxed.[27] Furthermore, the obligation to pay millions of dollars in monitoring fees is set at the time the portfolio company is acquired, well before it can be known whether the company will require any additional monitoring services above and beyond that which the traditional management and consulting team will provide. [28]

Pension funds and other limited partners are complicit in this behavior by PE firms. They go along in the mistaken belief that the monitoring fees shared with them as an offset to management fees they pay the PE fund's GP reduce the cost to them of investing in private equity. Despite the widespread

27 Polsky (2014b).
28 Primack (2013).

use of monitoring fees agreements by the private equity industry, the IRS has apparently so far failed to scrutinize these fees in audit examinations.

Exception to the Publicly Traded Partnership Rule

Partnerships that are publicly traded are ordinarily taxed as if they were corporations. They pay corporate income taxes at the enterprise level, and individuals pay income tax when they receive dividends or other distributions. This is in contrast to ordinary partnerships (including most private equity firms) that are pass-through entities — no taxes are paid at the firm level; income passes through to the PE firm's partners and is taxed at each partner's income tax rate. Over the past several years, a few large private equity firms — Blackstone, KKR, Carlyle, Apollo — have gone public. But by aggressively structuring their firms to take advantage of a tax loophole, they have managed to avoid the publicly traded partnership rules.[29]

There have always been exceptions to these rules: Energy companies engaged in exploration, mining, processing, transportation, and other enumerated activities are exempt from the publicly traded partnership rules. The tax code also exempts organizations that get most of their income from dividends, interest, or capital gains. But private equity firms are active businesses, not passive investors like mutual funds or real estate investment trusts.[30] To shoe horn themselves into the passive investor category, these publicly traded partnerships have set up so-called "blocker corporations" and located them in tax havens. The blocker corporations receive the income due to the publicly traded PE firms, pay the very low corporate income tax required by the jurisdictions in which they are located, and then pay out the income to the PE firms as dividends or interest.

PE firms are active businesses; those that are publicly traded should be subject to the corporate income tax. Creating a loophole for themselves by creating a blocker corporation in order to avoid paying the taxes that would otherwise be due erodes the tax base. In 2014, the Republican-led House Ways and Means Committee released draft tax legislation that would have closed this loophole for all publicly traded partnerships — leading to an estimated increase in tax revenues of $4.3 billion over 10 years,[31] but that legislation never passed. This is a loophole that should be closed.

29 Fleischer (2014).
30 Appelbaum and Batt (2014).
31 Fleischer (2014).

Conclusion

Meaningful tax reform requires a transparent process in which informed citizens, and not just Wall Street titans and business lobbyists, have input on legislation that affects the tax code and revenue received by the Treasury. Closed-door negotiations by top administration and congressional Republicans, without input from the public or even other members of Congress, can only result — as intended — in tax cuts for the rich and the very rich. Private equity firm partners are likely to be among the major winners — able to keep their current advantages and, in addition, to see large cut backs in their tax liabilities as a result of a major reduction in top tax rates on pass-through income.

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