Kill the hedge fund tax break: Our view

Rare bipartisan agreement: The 'carried interest' loophole needs to be closed.

The Editorial Board

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A tax break for hedge fund managers, private equity barons and a select group of other very fortunate financiers has never made much sense.

Its defenders have generally come from the ranks of Republicans. But, increasingly, even they are having a hard time mustering much enthusiasm for the special treatment of something known as "carried interest."

Grover Norquist: Don’t raise taxes

In his plan to cut and simplify taxes, former Florida governor Jeb Bush proposes treating carried interest income as ordinary income, which would mean a top effective rate of at least 39.6%, rather than the current 23.8%.

Billionaire Donald Trump proposes something similar. He has yet to release a detailed plan, but he makes up for his lack of specificity with heightened animosity. Hedge fund managers, he recently told CBS News, are "getting away with murder."

With the carried interest loophole now under attack from the GOP's establishment and anti-establishment wings — not to mention Hillary Clinton, Bernie Sanders and most of the Democratic Party — it's time to ask why it still exists. There is no good reason, other than that a select group of wealthy financiers has sprinkled enough money around Washington to defend the indefensible.

These financiers should not should get their own tax bracket, one that is well below those that apply to much of the middle class. And the federal government should not pick winners and losers through its tax code, or give financial professionals incentives to work in one industry over another.

The hedge fund and private equity managers keep their loophole year after year in large part because of the money they invest in politicians. Hedge funds in particular have been very generous, spending more than $40 million on the most recent election cycle. That's a pittance to protect a tax break worth $18 billion over 10 years.

To the extent that the fund managers mount a policy defense, it's that their income is a kind of capital gain and should therefore be taxed accordingly. This defies logic; these managers aren't risking their own money. They manage a pool of assets and take a cut of the profits (generally 20%).

In reality, the fund managers are just being paid for their expertise with a bonus for performance. Their compensation is similar to mutual fund managers who get bigger paychecks in years when their stocks do especially well, or an NFL quarterback who triggers a bonus clause in his contract when he throws 30 touchdown passes and takes his team to the Super Bowl.

These people pay income taxes on their income. And so should hedge fund managers. With bipartisan agreement, it's well past time to end one of the tax code's least justifiable breaks.