

## **NAIC Opposes Increase in Taxes on Carried Interest. Proposed Legislation Would Deal Severe Blow to Small Businesses and Raise Barriers to Entry for Minorities**

WASHINGTON, May 27 /PRNewswire/ -- The National Association of Investment Companies (NAIC) today called on Congress to oppose proposed legislation to dramatically increase taxes on carried interest. Such legislation, if enacted, would deal a severe blow to minority-owned private equity firms and all private equity investors in small businesses.

"NAIC opposes such drastic, across the board increases in taxes on carried interest as they would disproportionately impact small private equity firms which are traditional investors in small businesses and in underserved communities," said NAIC President & CEO, Samuel J. Boyd, Jr.

"It has taken nearly 40 years for minorities and women to begin to break into the ranks of the private equity industry. This proposed legislation will wipe away 40 years of progress and raise the barriers to wealth creation in minority communities across the country. Research has shown that minority-owned private equity firms invest in businesses and create jobs in underserved markets across the country."

According to industry sources, there are approximately two thousand private equity firms in the U.S. These firms in turn invested \$300 billion over the last 10 years in almost 10,000 companies employing more than 6 million Americans. This averages to an investment of \$30 million in a company that employs 600 people. Typically, these are not companies that can access the public equity or debt markets. They rely on bank lending, which has been curtailed, and private equity funding. NAIC member firms invest in even smaller companies, target underserved communities and create job and wealth creation opportunities for minorities.

Carried interest is appropriately taxed as capital gains. Private equity partners (GPs) cannot receive carried interest without putting their own capital and companies at risk. GPs invest most of their earnings and savings into their businesses, much like every entrepreneur does. Carried interest is only fully realized after the GPs return the entire capital to the investors (including fees and expenses) and generate a profit, a process which generally takes between 8 and 14 years.

In summary, "long term capital gains" is the essence of carried interest. The effort and process is no different from that of the entrepreneurs who invest to help grow their businesses. The value creation when entrepreneurs sell a business is taxed as capital gains to promote the formation and growth of new businesses. The value creation and long term investment required to generate carried interest should continue to be encouraged and promoted by our tax code as it has been for decades.

"An across the board increase in taxes on carried interest will significantly increase the barriers to entry for minorities to private equity. The retro-active nature of this proposal, as well as the concept of treating the sale of the enterprise or goodwill of a private equity firm as ordinary income, are especially egregious in designing tax policy to punish a specific industry. Small private equity firms, which traditionally invest in small businesses and underserved communities, won't be able to compete and we will lose talent and capital to larger, established firms with the scale and resources to survive this drastic change. We urge Congress not to turn the clock against 40 years of progress directing capital to minority entrepreneurs and underserved communities," said NAIC Board of Directors' Chairman, David Perez, Managing Director of Palladium Equity Partners.

About the National Association of Investment Companies (NAIC)

NAIC is the industry association for women and minority owned private equity firms and all those interested in investing in an ethnically diverse marketplace. NAIC member firms actively invest in privately held small businesses that have a high probability of growth and the ability to generate significant returns for investors.

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