Has the Carried Interest Rule Outlived Its Purpose?

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Introduction

The United States Internal Revenue Code is extremely complex and difficult to understand. Although, many people recognize that taxation is essential in order for the government to raise the capital necessary for government programs. For instance, Supreme Court Justice Oliver Wendell Holmes stated, “Taxes are what we pay for civilized society” (Tax). However, the problem in the United States is that Congress and most state governments love to spend money. In addition to raising revenue, the tax code has become a vehicle to perform social engineering. Lawrence H. Summers¹ advocates using the tax code to reward and punish behavior. “Simply put, all taxes discourage something. Why not discourage bad things such as pollution and rent-seeking, rather than good things, such as working and saving?” (Summers). We have even reached the stage where the tax code is not just used to collect revenue, but to distribute assets as well. For example, the Earned Income Tax Credit is a refundable tax credit for low-income working people. This credit not only returns the amount paid in taxes, but also may even give the individual a distribution that is more than he or she paid in taxes. The varying opinions and countless components of the Internal Revenue Code demonstrate the complexity of the tax system’s structure.

¹ Summers was Secretary of Treasury under the Clinton Administration and Director of the United States National Economic Council under President Barack Obama
Many Americans look for legal means of paying as little in income taxes as possible. This is known as tax avoidance\(^2\). Learned Hand, a well-respected judge on the United States Court of Appeals, stated, “Over and over again courts have said that there is nothing sinister in so arranging one’s affairs as to keep taxes as low as possible. Everybody does so, rich or poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions” (Chirelstein). Most people want to pay as little taxes as legally permitted, and there is nothing wrong with that.

Specifically, the carried interest rule is a tax avoidance issue that has become a hot political topic. As discussed later in this paper, although not many politicians support it, it remains a legal way for a particular group of people to pay less in taxes. This paper will analyze the carried interest rule, and it will look at the reasons why it was promulgated and whether it should continue. Ultimately, this paper will show that the rule should be abolished to the extent it applies to income earned by fund managers as a result of investments made with other people’s money. It will argue that while this reform should be made, it should be done as part of an overhaul of the entire Internal Revenue Code.

\(^2\) Tax avoidance is to be contrasted with tax evasion, which involves illegal methods of not paying taxes
What Is Carried Interest?

Private equity fund managers and hedge fund managers are compensated in a different way than most people who receive set salaries or hourly wages. This compensation is known as the “two and twenty” rule. They earn a management fee of 2% of the gross assets invested for the client. This 2% is guaranteed no matter how well the investment does, and it is taxed as ordinary income. In addition, managers receive 20% profits interest of the fund’s return above a specified hurdle rate, usually 8%. Any profit the fund earns above this hurdle rate, known as carried interest, is taxed as investment income. (Weissmann). Investment managers receive this compensation to reward them for the profits their funds earn. This 20% carried interest makes up most of these investors’ income and can be huge amounts, reaching millions of dollars per year.

Carried interest is the share of profits that fund managers receive as compensation for managing investments. Those profits are treated as investment income and not as labor income. The Internal Revenue Code distinguishes between short-term capital gains and long-term capital gains when an investment is sold. In sum, short-term capital gains are treated as ordinary income (just like salaries). If an investment is held for more than one year before it is sold, and it is sold at a profit, that profit is treated as a long-term capital gain.

Under the carried interest tax rule, if an investment is held in the fund for one year or more, the gain when the investment is sold qualifies as a long-term capital gain. This income earned by the manager is taxed as investment income at
the Long-Term Capital Gains (LTCG) tax rate rather than ordinary income at the marginal tax rate. The LTCG rate has a maximum rate of 20% for income of $415,050 and over. This is much less than the marginal tax rate, which has a maximum rate of 39.6% for income of $415,050 and over (Spiegelman). This capital gains tax rate is extremely advantageous for investment managers because it can cut their taxes on the profits interest income in half. Instead of being classified as compensation for services, which is taxed as ordinary income, this income from the fund is considered a return on investment and benefits from the preferential tax rate.

Investment managers are generally not investing their own money, but rather their clients’ funds (Calmes). However, allowing them to benefit from the carried interest rule “aligns the interests of money managers and their clients. The general partner makes far less or even no money when their fund performs poorly; they’re proportionally rewarded when their investments gain in value” (Delevingne). This tax treatment rewards investment managers for taking risks and earning high returns on their client’s money.

The carried interest rule has been around for over 50 years as an incentive for long-term investment. It was initially created to help real estate and small businesses grow. “The premise was simple: entrepreneurs and small businesses take greater, longer term risks than buying and selling off shares of stocks. Because they invest so much and so much time, they deserve a tax break” (Greenwald). For a while, this rule contributed to the growth of investment management, private
equity, and real estate. The carried interest rule provided an incentive for people to make long-term investments and had an overall positive effect on the economy. However, it wasn’t until the late 1990s, when hedge funds started to emerge, that they began to take advantage of this tax break (Greenwald). Now, it is investment managers, who are some of the wealthiest people in the country, who use the carried interest rule to get a tax break on their profits interest income. Since it is being used for a purpose other than for what it was originally created, many are questioning whether the carried interest rule should be reformed.

**Criticism of Carried Interest**

Many people oppose the carried interest tax rule. The general public is upset that investment managers, who generally are extremely wealthy, pay a lower tax rate than people making less than a quarter of their income. “Investment managers of private funds are some of the wealthiest people in the country in part because of the cut they take on investment gains. Most money managers are paid based on their performance rather than a regular salary, which makes their annual income taxed at a much lower rate than most other people” (Delevingne). Kindergarten teachers make about $40,000 or less a year and usually fall into the 25% tax bracket. Meanwhile, ”top hedge fund managers make in excess of $200 million dollars annually — in many cases, billions”, and they are paying tax rates of 20% or less (Greenwald). Understandably, this disparity has caused outrage among many people.
New York Mayor Bill de Blasio is a major critic of the carried interest rule. He stated, “In 2014, the top 25 hedge fund managers made more money than every single kindergarten teacher in America — over 150,000 of them — combined... What’s more, because of something called carried interest... those 25 people paid a lower tax rate than the average kindergarten teacher” (Parramore). De Blasio argues that the loss of tax revenue resulting from the carried interest loophole is causing public education to suffer. The education system is underfunded and many teachers are paying for the classroom’s supplies and materials out of their own pocket. These dedicated teachers struggle to live on their salary and are paying higher tax rates than those investment managers making millions or billions each year. The film “Hedge Fund Billionaires vs. Kindergarten Teachers” states that the income tax rates of the top 0.1% have been decreasing since the 1950s, while the tax rates of middle class families have been rising. This trend can be seen in Figure 1 below (Greenwald). This reveals how income inequality is not a new issue, but has been developing over the past 50 years.

![Income Tax Rates 1965-2007](image)

The investment managers argue that they are taking a risk since their compensation is based on how well their investments perform. If their funds do not do well, they only receive the 2% management fee, and this justifies the special tax treatment. However, these managers are mostly investing their clients’ money, and “that perverts the original intent of the carried interest law, which was to reward entrepreneurs who take a risk by investing their own money in order to grow the economy” (Greenwald). In fact, this tax benefit may be counterproductive in aligning these investors’ interests with their clients. Senior economist Eileen Appelbaum argues “the rule actually causes dangerous speculation rather than healthy investment, noting that it ‘rewards and encourages risky behavior that can lead companies bought by private equity into financial distress’” (Parramore). Not only is the carried interest rule not being used for its original purpose, but it may be causing more harm than good when it comes to incentivizing investors to act in their clients’ best interests.

Consequently, many critics want to terminate the carried interest tax rule. “The Treasury Department has estimated that taxing carried interest at the higher ordinary income rates would raise about $18 billion over the coming decade” (Pianin). This increase in tax revenue can be used towards public education, unemployment benefits, and many other areas in need of funding. However, putting an end to this rule is easier said than done. It is difficult for the IRS to go after big hedge funds and private investors. They are politically powerful because they are major contributors to the Democratic and Republican parties. In 2010, the House of Representatives, controlled mainly by Democrats, “finally squeaked through a tax
plan that did close the carried-interest loophole, but the Democratically-controlled Senate wouldn’t go along” (Reich). Wall Street is the Democratic Party’s biggest contributor, and it is also very generous to the Republicans as well. The real reason the Democratic Senate refused to end the carried interest rule and why the government struggles to regulate Wall Street is that they don’t want to bite the hand that feeds them.

**Carried Interest and Politics**

Many Democrats and Republicans agree that the carried interest rule should be eliminated. President Obama argues that something needs to be done about the rising income inequality in our nation. He wants to put an end to the carried interest tax rule that benefits the wealthy hedge fund and private equity managers. He stated, “keeping this tax loophole, which leads to folks who are doing very well paying lower rates than their secretaries, is not in any demonstrable way improving our economy” (Calmes). Ever since Obama took office, he has wanted to raise taxes on these investment managers in order to have more spending money for government programs. However, he has not been able to accomplish this goal during his presidency.

Most of the 2016 presidential candidates have something to say about the carried interest rule, and they are not words of praise. Republican candidate Donald Trump has reignited the carried interest loophole flame. This debate about carried interest really began picking up steam during Donald Trump’s rally in September
2015 where he stated, “The hedge fund guys are getting away with murder” (Weissmann). He has brought more attention to the carried interest issue than president Barack Obama has in the past seven years. Trump uses the carried interest rule to address the income inequality issue on his political platform and puts the blame on the hedge fund managers.

Recently, democratic candidate Hilary Clinton spoke out against the country’s disparity in income. Clinton stated, “People aren’t getting a fair shake. Something is wrong when CEOs earn more than 300 times than what the typical American worker earns and when hedge fund managers pay a lower tax rate than truck drivers or nurses” (Kessler). The average nurse makes $66,640 a year and pays a marginal tax rate of 25%. Meanwhile, investment managers are using the carried interest rule to pay a maximum capital gains rate of 20% on their profits interest income (Kessler). She is outraged that managers making millions a year are paying a lower tax rate than people making less six figures.

While Democrats and Republicans butt heads on many issues, it appears that they both agree that the carried interest rule should be abolished. Both Clinton and Trump have attacked hedge fund managers as being the culprits of abusing the carried interest rule, even though it is the private equity fund managers who receive most of the benefits. Of course, political promises made during a campaign are no guarantee of future results. Clinton has received a lot of campaign contributions from hedge funds, and the jury is out as to whether she will honor her promise or water it down.
Politicians love to call the carried interest rule a loophole. However, I disagree. This is not a loophole. There are no unintended consequences and the rule works as it was intended to do. The issue is whether or not to eliminate or reform the tax rule, not whether the tax rule is legal.

The Misconception About Hedge Funds

Many politicians use the terms “private equity firms” and “hedge funds” interchangeably. However, these two types of investment firms behave quite differently. Private equity firms invest other people’s money. Typically, they invest in private companies to acquire controlling interest or to buy them out. Besides contributing capital, private equity firms often assist the private company by addressing problems relating to capital structure and management (Maverick). The firm’s goal is to take a struggling company, make it stronger, watch it prosper, and then reap the benefits from their successful investment.

Hedge fund managers are one of the main targets in the carried interest debate. However, this is a common misconception. Like private equity firms, hedge funds invest other people’s money. However, hedge funds generally focus on investing in securities that are easy to trade. For example, hedge funds tend to invest in liquid securities including equities, bonds, derivatives, and futures. (Maverick). Unlike the private equity firms, many hedge fund managers do not focus on long-term gains. In fact, the duration of many investments are extremely short. With the use of computer algorithms, hedge funds may make thousands of
trades a day (Fleischer). These profits do not qualify for the carried interest tax benefit because they are short-term capital gains and are taxed as ordinary income. Politicians are attacking the hedge fund managers in the media for their abuse on the carried interest rule, even though this rule does not affect them near as much as the public believes.

Hedge fund managers are upset that they have become the target for this tax avoidance issue. “Those industries – real estate, private equity and venture capital – have been very clever but very disingenuous in letting the hedge fund industry take the fall for this and take the political heat...It's only recently that carried interest and hedge funds have gotten lumped together” (Rubin). It is the managers of private-equity firms that get to benefit from carried interest since their funds are generally held for over a year. “What's more, if carried interest worked so well for hedge funds they probably wouldn't be employing so many other crafty maneuvers to avoid taxes at short-term capital gains rates” (Rubin). Just because hedge funds don't usually qualify for the carried interest tax benefit doesn't mean they are not using other means to avoid paying taxes, which will be discussed later in this paper. Hedge funds are incorrectly being attacked for abusing the carried interest rule instead of the private equity fund managers who are the real culprits.

**Proposals to Change the Carried Interest Rule**

Those who oppose the carried interest tax rule disagree with the way carried interest income is classified. Currently, carried interest is classified as investment
income, but critics believe that its characteristics qualify it as labor income. “Some argue that carried interest is a way of compensating investment managers for a service they provide, and is thus no different than any other form of labor income” (Greenberg). They believe that the carried interest rule is unfair and it simply helps the rich stay rich.

Although investment managers may contribute some of their own money to the funds, it is primarily their clients’ money at risk. The carried interest is mainly compensation for the manager’s work as opposed to gains from their own money. Therefore, critics argue that their compensation is truly labor income and not investment income. Because these investment managers are paid based on performance, their income should be taxed as ordinary income and they should not get to take advantage of the preferential LTCG tax rate. People are angry that these extremely wealthy investment managers are getting taxed at lower rates for risking money that isn’t even their own.

Critics have proposed many different ways to reform the tax code. Some want to abolish the carried interest rule so that all of the income that investment managers receive will be treated as ordinary income. “Even if some returns from profits interests constitute returns on capital rather than returns on labor, taxing all of the income from profits interests as ordinary income may achieve a ‘rough justice’ given that profits interests partners are not taxed upon the grant of the interest and thus benefit from deferral” (Field 431). Other critics want carried interest to apply only to the manager’s personal funds, not to the gains on the
investment that they manage for their clients. A “proposed fix is to make the carried interest tax discount proportional with the amount of money the investment manager puts in up front” (Delevingne). There might be disagreement over how carried interest should be changed, but most critics agree that this code needs to be reformed.

**Legislative Proposals for Reform**

Legislation was recently introduced to reform the way carried interest is taxed. On February 11, 2013, Senator Carl Levin introduced the Cut Unjustified Tax Loopholes Act in attempt to reform the tax treatment of investment managers who receive carried interest as compensation. The proposed legislation went nowhere in Congress.

These reform proposals were ineffective at addressing the true issue, which is the need to reform the tax code. “This is not because the current tax treatment of fund managers is necessarily appropriate. Rather, this is because recent commentators and policymakers have failed to systematically unpack the features of the tax law that combine to produce the current tax treatment of fund managers’ carried interests. This failure obscures the real source of the policy objection to the taxation of carried interests” (Field 407). These reform proposals do not provide the best solution. Instead of making an easier tax code, these proposals would make the tax code more complex. All of this focus on carried interest causes policymakers to have a narrow view and diverts attention away from the many problems with the
tax system. “The legislative proposals to reform the tax treatment of carried interests are much narrower; they do not focus on all equity compensation, nor do they focus on all equity compensation in partnerships...Rather, the carried interest tax proposal focuses only on profits interests within a particular industry” (Field 418). Policymakers should be looking at equity compensation as a whole to fix the overall problem and not just focusing on one single rule.

If Congress wants to use the tax code to combat income inequality, legislators should be looking at ways to reform the tax code that affect all high-income individuals, not just fund managers. “To address concerns about the appropriate level of taxation of high-income individuals, more responsive reform would increase the degree of progressivity in the tax system through base broadening and/or raise the ordinary income and/or LTCG rates applicable to high-income individuals. This reform would be made applicable to all high income individuals and not solely those who work in the fund industry” (Field 438). Getting rid of one tax rule is not going to solve all of the income disparity problems in the country. It will take a much more sophisticated reform than that. Therefore, Congress should not enact the recent proposals to change the carried interest rule because they do not focus on the primary concern and will only cause more problems. Legislative needs to change the tax code to address the issue with income inequality as a whole and not just focus on investment managers. Policymakers need to treat the entire disease, not just a single symptom.
Is the Carried Interest Debate Mostly Overblown?

While there are many critics of the carried interest rule, there are also many people that believe that the attacks on this tax rule have been blown out of proportion. Compared to all employee compensation, carried interest is only a small portion. As seen in Figure 2, taxation of carried interest at the capital gains rate only accounts for $1.32 billion, while deduction of mortgage interest accounts for $75.65 billion. Of the five tax provisions, carried interest only accounts for 0.977% (Greenberg).

![Figure 2](image.png)

It has been determined that “Treating carried interest as ordinary income would raise only a fraction of the revenue of ending the exclusion of interest on state and local bonds or the mortgage interest deduction. These figures confirm that,
when it comes to federal revenues, the treatment of carried interest is essentially pocket change... raising only $1.32 billion in 2016 and $15.64 billion over ten years” (Greenberg). To tackle the income inequality issue will require a lot more to be done than eradicating the carried interest rule.

The carried interest rule was created with the intent to drive the economy and incentivize investors to make long-term investments. While many people believe that it does not do this anymore, others argue that “a repeal of carried interest for investment managers will likely lead to the disuse of it in investment operating agreements for investors, which will put a chill on growth in the investment management, private equity and other investment-related industries. That will slow down the economy, choke finance of start-up companies and impair restructuring transactions” (Green). Many politicians who advocate getting rid of the carried interest tax benefit believe that it will be a quick fix and result in favorable headlines. However, it will not automatically fix the United States economy. The politicians are more concerned with gaining points with the public rather than proposing a real solution to the larger issue. In fact, getting rid of the carried interest rule may do more harm than good by discouraging investment managers from making long-term investments since they will no longer receive a tax break. If critics wish to reform the tax code, they should look at the way compensation is taxed as a whole, not compensation specific to the fund industry.

Furthermore, while the carried interest rule is getting much attention, many investment managers and corporations use other types of strategies to avoid paying
income taxes. Hedge fund managers generally do not qualify to receive the carried interest tax benefit, but they use other tactics that will be discussed below to avoid paying taxes. Large corporations also creatively avoid paying income taxes. It seems that because the tax code is so complicated, when one loophole or strategy is shut down, another way to avoid taxes crops up. This supports the idea that the entire tax code needs to be reformed in order to be more effective.

Hedge Funds and Tax Avoidance

Hedge fund managers generally don't get to take advantage of the LTCG preferential tax rate from the carried interest tax rule. However, just because they don't get to benefit from this tax rule does not mean that they are happily paying 39.6% of their profit in income taxes. Hedge funds use other strategies to avoid paying such a high income tax rate on their profits. One common tax avoidance strategy among this industry is the use of basket options.

Hedge funds usually buy and sell securities in matters of weeks, days, or even minutes, so they do not qualify to receive the carried interest tax benefit. These profits are short-term capital gains and are taxed at the marginal tax rate. To avoid paying such high rates, banks have found a way to disguise these extremely short-term gains as long-term with the use of basket options. “By exercising the [basket] option, a hedge fund would either make or lose money based on the results of millions of trades over many months. Since they often waited more than a year to exercise the option, the hedge funds treated the profits as long-term gains”
(Davidson). This allowed hedge funds to pay the LTCG preferential tax rate with a maximum of 20% instead of the marginal tax rate of 39.6% on their income.

Deutsche Bank and Barclays Bank are two large banks that have been singled out for selling basket options to hedge funds beginning in the late 1990s. The Senate Permanent Subcommittee on Investigations investigated these banks and prohibited the use of basket options for hedge funds. These two banks helped hedge funds escape billions of dollars in taxes by using basket options to disguise short-term capital gains as long-term, thus receiving preferential tax treatment. Renaissance Technologies was one of the hedge funds that benefited from using basket options. This company “earned about $34 billion in profits and avoided paying $6.8 billion in taxes... The banks also profited from the scheme, with Deutsche Bank earning $570 million in financing, trading and other fees and Barclays taking in $655 million.” (Davidson). This took money away from the country and put a heavier burden on the American public. Representatives from Renaissance Technologies, Deutsche Bank, and Barclays Bank all defend their position that they were acting within the law. Ultimately, Congress ruled that the use of basket options for hedge funds was no longer acceptable.

Additionally, hedge fund managers would defer a portion of their compensation in a Cayman Islands corporation, “which would act as the equivalent of a titanic tax-deferred retirement account. Congress closed that loophole in 2009, although some investments parked offshore will not be deemed repatriated (and will not be taxed) until 2017” (Fleischer).
Now, to replace the Cayman strategy, many hedge fund managers have entered the business of reinsurance. They are using “Bermuda-based reinsurance companies as a capital base for investment in their hedge funds” (Fleisher). Insurance companies are required to hold capital in reserve, and hedge fund managers have used this to their advantage by investing that capital in a hedge fund. “By stapling a small reinsurance business onto billions of dollars of hedge fund capital, any profits can be indefinitely deferred from tax offshore” (Fleischer). The bottom line is that when the Internal Revenue System tries to stop the firms from avoiding taxes, the hedge funds search out new ways to do so.

**Other Tax Avoidance Methods**

The revenue lost by the carried interest rule is a mere drop in the bucket. Many large companies are able to take advantage of these tax loopholes because they have the capital necessary to do so. The use of off-shoring strategies enables companies to pay taxes in another country that has more favorable tax rates than the United States. The use of tax shelters in the Cayman Islands by hedge fund managers has caused Congress to take action and close the loophole in 2009 (Fleischer). Many large companies, such as Apple and Google, take advantage of their expert legal and accounting team to find ways to avoid paying income taxes.

The US Senate has been very concerned with Apple’s tax strategies and has “turned the spotlight on a unit with $30 billion in profit since 2009 that’s incorporated in Ireland, controlled by a board in California, and doesn’t pay taxes in
either place” (Drucker). If Apple ever decided to bring the profits it earns from international sales into the United States, they will have to pay US taxes on it, but for now they are “sitting on a massive pile of cash that is not taxed by any country” (Weintraub). The US Senate Permanent Subcommittee on Investigations discovered that Apple “avoided paying income taxes on $74 billion of profit during the past four years in part by moving patent rights to a web of offshore subsidiaries that pay virtually no income taxes” (Drucker). The IRS is extremely concerned because Apple has been able to avoid paying billions of federal taxes on their income, even though their main headquarters is located in Silicon Valley, California.

Similarly, Google has avoided paying taxes in the United States by using tax avoidance strategies to move their money around. Google uses a pair of tax shelters, know as the “Double Irish” or the “Double Sandwich”, to “move foreign profits through Ireland and the Netherlands to Bermuda to avoid about $2 billion in income taxes a year, according to the company’s filings in the U.S.” (Drucker). By moving their money to Bermuda, a country that has a much lower income tax rate, Google has avoided paying billions in income taxes.

These tax shelters help corporations avoid paying a tremendous amount of tax dollars. The IRS is not pleased with these methods and is trying to put an end to them. However, no matter what barriers the government erects, it seems as though these companies become more and more clever in getting around them to avoid paying taxes. This makes one question whether these tax rules and regulations are effective, and whether the United States should consider reforming its tax rules.
Conclusion

Evidently, the carried interest tax benefit is controversial. Some believe that it is ruining the country’s economy, while others argue that it is keeping it from stalling. This has become a hot topic, especially with the 2016 presidential election approaching. Because politicians are more interested in gaining political points rather than addressing the real issue, many are guilty of misleading the public to believe that private equity fund and hedge fund managers are to blame for the income inequality in the country.

It is clear that there is a problem with the tax code. The code is extremely complicated, encouraging taxpayers to find loopholes and avoid paying taxes. By doing so, this puts a burden on the rest of the public and causes our taxes to rise. This is a cycle that needs to finally be put to rest. In fact, many experts, such as Steven Forbes, believe the tax code should be thrown out and replaced with something much simpler. “The tax code is a monstrosity and there’s only one thing to do with it. Scrap it, kill it, drive a stake through its heart, bury it and hope it never rises again to terrorize the American people” (Wood).

After researching this tax avoidance strategy, I do not believe that eliminating the carried interest rule will solve the problem of income inequality. However, this tax benefit does seem to be unfair. It seems that the best action to reform this issue would be to only allow investment managers to receive preferential LTCG tax treatment on the portion of personal funds they invest into
the portfolio. The compensation the managers receive for their services of managing the fund should be treated as ordinary income, not investment income. This seems to be the best and fairest solution. Investment managers will still receive a tax benefit for money that they are personally risking in a long-term investment, which will still drive the economy and encourage people to make those investments. It also raises some money for the government by taxing the amount managers receives solely for service compensation as ordinary income.

Even though the carried interest rule is the topic of conversation when discussing income inequality, the real problem lies deeper within the tax code. The entire tax code needs to be reformed, not just one small subsection within it. It is easy to target carried interest and hedge fund managers as the culprits of the income disparity, but there is so much more that is wrong with the tax code. The entire tax code needs to be reformed, and the country needs a simpler, fairer system. This would be a huge reform, but it would be one that would ultimately benefit the country in the long run.
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