



SUBMITTED ELECTRONICALLY

April 15, 2015

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Re: Pass-Through Taxation; Tax Treatment of Carried Interest, Enterprise Value; Tax Treatment of Financial Products

Dear Chairman Hatch, Ranking Member Wyden, Chairs, Co-Chairs, and Members of the Senate Finance Committee Tax Working Groups:

Managed Funds Association (“MFA”) welcomes the opportunity to submit the following comments regarding pass-through taxation, the tax treatment of carried interest and enterprise value, and the tax treatment of financial products in response to the Senate Finance Committee’s invitation.

MFA represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, the Americas, Australia and many other regions where MFA members are market participants.

The attached comments reflect the views of MFA members developed in part in response to legislation introduced in the 113th Congress by former House Ways & Means Committee Chairman, Rep. Dave Camp, “The Tax Reform Act of 2014” (HR 1) as well as other tax reform proposals. We believe that a discussion on pass-through taxation, the tax treatment of financial products, and the tax treatment of carried interest and enterprise value are important components of considering overall tax reform.

Among the recommendations:

- **Pass-through tax treatment.** Changing the tax treatment of partnerships would subject entrepreneurs to two levels of taxation. This double tax would have a negative impact on millions of businesses and the process of capital formation and job creation across the US, thereby threatening to further erode the soft housing market and discouraging capital investment in new or struggling companies.
- **Financial Products.** While some funds elect mark-to-market treatment of their derivatives investments, we are concerned with a mandatory requirement to mark-to-market financial derivatives at the end of each tax year, and treating the changes in value – which are “paper” rather than economic gains – as ordinary income/loss, raises important questions with respect to liquidity, volatility, valuation, and fairness. We are further concerned that the proposal could have unintended consequences for markets and investors.
- **Enterprise Value.** In past years, legislation has been introduced that would change the taxation of “enterprise value” and carried interest. This legislation would selectively change the tax treatment for a sale of a business’ “enterprise value” – from a capital gains rate to the ordinary income rate – when the stake in the business belongs to an investment adviser. MFA is opposed to this discriminatory tax, and believes that an entrepreneur who builds a business is entitled to the same tax treatment as anyone else when selling that business.
- **Carried Interest.** MFA urges policy makers to consider any change regarding the current tax treatment of the investment returns of advisers to private pools of capital as part of comprehensive tax reform, and encourages policy makers to support tax reform initiatives that promote economic growth, capital formation and investment.

MFA stands ready to assist the Senate Finance Committee and the working groups as you consider proposals for tax reform. If you have questions or if you would like additional information, please feel free to contact me or MFA Executive Vice President Roger Hollingsworth at 202-730-2600.

Sincerely,



Richard H. Baker
President and CEO