HEDGE FUND WEEKLY

Hedge fund industry yet to lobby on challenging tax reform

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Hedge funds trading certain contracts in the US have yet to lobby to prevent taxes rising significantly under a new proposal by the House of Representatives Ways and Means Committee.

Under section 1256 of the Internal Revenue Code regulated futures contracts, foreign currency contracts, distressed debt, certain options are treated as 40% short-term capital gain or loss – taxed as ordinary income – and 60% long-term capital gain or loss – taxed at a lower 23.8%.

“The idea of the proposal is to harmonise the treatment of all derivatives,” Isaac Hirsch, associate at Lowenstein Sandler, told*Hedge Compliance.*

He said: “Most hedge funds would see this as bad news because they generally have gains rather than losses – if they’re doing well – and so they’re going to be taxed at a significantly higher rate on those gains.”

But during a hearing on the tax reform on 20 March, section 1256 was not mentioned. “The industry hasn’t started lobbying yet,” said independent US tax adviser Viva Hammer. “And I know the industry is much more worried about carried interests and will save up their favours for that.”

The Ways and Means Committee will next conduct discussions behind doors, either choosing to introduce the proposal as a bill, or not.