U.S. Chamber of Commerce

U.S. Chamber of Commerce Releases New Report on Economic Impact of Restrictions, Liabilities, and Tax Increases on the Private Funds Industry

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WASHINGTON, D.C. – The U.S. Chamber of Commerce released a new study today that explores the economic contributions of the private funds industry and the crucial role it plays in the development of companies and job creation throughout the U.S., the reliance on the private funds industry by pension plans and other institutional investors, and the contributions of the private funds industry to the Federal, state and local tax base. The study also considers the economic impact that restrictions, liabilities, and tax increases from proposed Congressional legislation would have on the industry.

“We need a diverse financial system to fuel businesses and provide Main Street with growth and job creation, and at the same time America’s investors need a variety of vehicles to provide long-term return,” said U.S. Chamber Center for Capital Markets Competitiveness Executive Vice President Tom Quaadman. “Private equity firms make valuable, long-term investments in U.S. companies, supporting over 26 million U.S. jobs and driving economic growth by contributing over $475 billion in annual tax revenues. The restrictions and tax increases on the industry that are currently included in proposed legislation would harm Main Street businesses, investors and America’s workforce.”

The report highlights that the proposed House and Senate “Stop Wall Street Looting Act” legislation would seek additional caps on leverage for private equity, tax profits at ordinary tax rates rather than as capital gains, and hold private-equity firms liable for all debts, legal judgements and pension obligations of their portfolio companies, among other provisions.

Key takeaways from the report find that enactment of the proposed legislation:

- Would result in a loss in the range of 6.9 million to 26.3 million jobs across the United States;

- Would result in combined Federal, state, and local governments losing a combined $109 billion annually in tax revenues (revenues used to fund other programs) in a modest case scenario, or $475 billion in a worst-case scenario;
- Investors could lose anywhere from $671 million to $3.36 billion per year (about half of which would be lost to pension fund retirees);
- Imposition of increased risk, taxes, and restrictions contained in S.2155/H.R. 3848 would likely cause some (and potentially all) of the private equity industry to cease to exist;
- Many firms which normally seek PE financing would be unable to find financing and fail (or downsize);
- If even 1% of the industry exited, and an equivalent percent of PE portfolio companies failed, the Federal governments would lose money.

"The significant increases in risk, regulation, and taxes imposed by the "Stop wall Street Looting Act" will cause private equity firms be unable to provide badly needed capital to struggling as well as growing companies," said Professor Charles Swenson. "As a result, many companies will downsize or fail, causing the loss of millions of jobs and billions in tax revenues. Pension funds (who support retirees), who provide almost half of private equity investments, would be the most negatively affected since they would have to invest in much lower yielding investments."

With the current contributions of private equity firms to the U.S. workforce and the economy as a whole, legislation such as the current proposal in Congress would only put a greater burden on American workers and businesses.

The full report can be found here.