



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 16, 2010

The Honorable Sheldon Whitehouse
United States Senate
Washington, DC 20510-3905

Dear Senator Whitehouse:

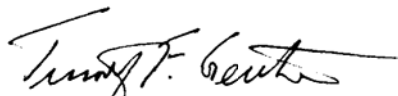
Thank you for your letter regarding the taxation of "carried interest."

The Administration's budget proposal would close the loophole in existing law that allows some taxpayers, such as managers of private equity funds, to be taxed at reduced long-term capital gains rates on their income from services. This loophole is primarily created by the tax code's flow-through treatment of gain recognized by partnerships. The proposal would tax a service partner's income from a partnership, including long-term capital gain, at ordinary income tax rates to the extent that income is attributable to the partner's services. It would also convert a service partner's capital gain from the sale of its partnership equity interest to ordinary income to the extent the capital gain is attributable to services provided by the partner. In addition, the proposal would subject such income to payroll taxes.

These changes to current tax law require statutory changes, and unfortunately cannot be done by changes to administrative guidance.

Please do not hesitate to contact the Treasury Department's Office of Tax Policy if you or your staff would like additional detail on the technical aspects of this matter. We look forward to working with you on this important issue.

Sincerely,



Timothy F. Geithner