



## asset management group

April 13, 2017

The Honorable John W. Fonfara  
The Honorable Jason Rojas  
Co-Chairs  
Finance, Revenue and Bonding  
Legislative Office Building  
Room 3700  
Hartford, CT 06106

**RE: HB 7313, An Act Imposing a Surcharge on Income Derived From Investment Management Services**

Dear Chairs Fonfara and Rojas:

We are writing on behalf of the Asset Management Group of the Securities Industry and Financial Markets Association (“SIFMA AMG” or “AMG”)<sup>1</sup> to respectfully oppose HB 7313, legislation that would impose a 19% surcharge on income derived from investment management services. We appreciate that the State is facing some significant fiscal constraints. We, however, strongly believe that a sizeable surcharge on investment management services is not an appropriate solution.

It is our understanding that this bill is intended to close a perceived tax gap related to the taxation income of certain investment fund managers at the federal level, known as “carried interest.” While we have reservations about the policy of attempting to remedy perceived gaps in federal tax law at the state level, our primary concern is that the bill, as drafted and perhaps unintentionally, is broader than necessary to achieve its intended purpose.

As we understand the bill, the surtax would apply to any Connecticut resident who provides investment management services within or outside the State. In many cases, such income already is fully taxed at the federal level and does not benefit from the preferred rate for long term capital gains. For example, where a Connecticut resident provides such services as an employee of a publicly traded corporation, the resident would not receive a preferential federal tax rate on her income. Likewise, where a Connecticut resident provides such services to a partnership or LLC, it is most often the case that such income is taxed at ordinary income tax rates at the federal level. Again, there is no preferential rate, and the surtax would impose a severe burden on these Connecticut residents solely because of their chosen profession. We are also concerned about the lack of any apportionment provision which could lead to multiple taxation by several states of the same income. SIFMA AMG believes the bill should be clarified to make clear that it only applies in

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<sup>1</sup> SIFMA AMG’s members represent U.S. and multi-jurisdictional asset management firms whose combined global assets under management exceed \$34 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

cases where income received by the Connecticut taxpayer is taxed at a preferential rate at the federal level, and the relevant services are performed in Connecticut.

In addition, HB 7313 broadly defines investment management services to include “any activity in support” of providing such services, which could have significant implications for investment management firms that employ Connecticut residents, potentially bringing all of such firms’ employee compensation in scope of the surtax, notwithstanding the lack of a federal tax benefit in most cases. Left unmodified, this legislation is likely to discourage investment management firms from locating in Connecticut and those that remain in the state would likely have a harder time attracting and retaining employees. This runs counter to the State’s interest in promoting economic development and job growth.

The tax on investment management services may also make it harder for Connecticut residents and institutional investors to invest. The increased costs necessary to retain Connecticut residents as a result of the surtax is likely to be shared at least in part by the business’ clients. Moreover, unless modified, the surtax could also make it more difficult for Connecticut pension funds and other Connecticut businesses to find local asset managers.

In short, we believe that HB 7313 is an overly broad “fix” for a narrow concern that would impose a significant burden on Connecticut residents and the firms that employ them. We understand that the legislation cannot be implemented until enacted by a number of states. We, however, would encourage you to not move forward with this legislation as it does not address the perceived issue, is overly broad, and has potentially significant unintended consequences.

We appreciate the opportunity to provide feedback. Please do not hesitate to contact either of the undersigned at 202-962-7300 or our Connecticut lobbyists Pat McCabe and Maureen Flaherty at 860-293-2581 if you have any questions.

Sincerely,

A handwritten signature in blue ink that reads "Payson R Peabody". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Payson Peabody  
Managing Director and Tax Counsel

A handwritten signature in blue ink that reads "Lindsey Keljo". The signature is written in a cursive style with a large, looped initial 'L'.

Lindsey Keljo  
Managing Director and Associate General Counsel  
Asset Management Group