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PRIVATE EQUITY, PUBLIC DAMAGE

HOW ‘VULTURE INVESTORS’ GET RICH WRECKING COMPANIES, KILLING JOBS, ENDANGERING THE VULNERABLE & SPOILING THE ENVIRONMENT—AND OUR TAX CODE HELPS THEM DO IT

AMERICANS FOR TaxFairness

PRIVATE EQUITY STAKEHOLDER PROJECT

AFR EF Americans for Financial Reform Education Fund

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AMERICANS FOR TAX FAIRNESS (ATF) is a diverse campaign of more than 420 national, state and local endorsing organizations united in support of a fair tax system that works for all Americans. It has come together based on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. This requires big corporations and the wealthy to pay their fair share of taxes, not to live by their own set of rules. ATF is a project of the New Venture Fund—a section 501(c)(3) non-profit organization.

THE PRIVATE EQUITY STAKEHOLDER PROJECT (PESP) is a nonprofit watchdog organization focused on the growing private equity and broader private funds industry. PESP was founded in 2017 to address the growing impacts of private equity and private funds managers on people and the planet, and to serve as a resource to communities, individuals, and organizations grappling with such impacts. PESP focuses on five key areas affected by private equity: climate and energy, workers & jobs, housing, healthcare, and detention & surveillance.

AMERICANS FOR FINANCIAL REFORM EDUCATION FUND (AFREF) is a nonprofit, nonpartisan coalition of more than 200 civil rights, community-based, consumer, labor, small business, investor, faith-based, civic groups, and individual experts. It was founded in the wake of the 2008 financial crisis and its mission is to fight to create a financial system that deconstructs inequality and systemic racism and promotes a just and sustainable economy.

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A Toys "R" Us store goes out of business in Columbus, Ohio in 2018.

INTRODUCTION

Private equity (PE) firms use money raised from wealthy individuals and institutional investors like pension funds, university endowments, and sovereign wealth funds to take over and manage companies. Once they take control, PE firms pursue aggressive financial-engineering strategies–such as severe cost-cutting, charging excessive management fees, paying themselves debt-funded dividends, and selling off valuable assets–that prioritize extracting short-term value over the long-term stability of the companies they control. These practices can severely undermine the financial viability of the targeted businesses, with workers, consumers, communities, and other stakeholders bearing the brunt of such cost-cutting and revenue extraction.

The tax code has enabled the private-equity industry through special tax breaks that create perverse incentives to ruthlessly "extract value" from takeover targets.

Private equity investing has been described by leading financial reformer Sen. Elizabeth Warren (D-MA) as "legalized looting" and PE firms as "vampires". The vampire image is apt because of the industry's model of taking over companies for a few years, "bleeding" the firm of cash through short-term strategies that can hurt in the long-run, then moving on to the next "victim." One study of almost 500 public companies taken private by PE firms through leveraged buyouts–acquisitions funded by a big loan secured against the takeover target, which is also responsible for repayment—found they were 10 times more likely to go bankrupt than similar firms that had not been acquired.

The first notorious purchase and privatization of a public company was the leveraged buyout of RJR Nabisco back in the late 1980s–then the biggest leveraged buyout in American history and the subject of the book and movie "Barbarians at the Gate." Among the most infamous PE bankruptcies was the Toys 'R' Us collapse some 30 years later: investors led by PE firms KKR and Bain Capital and their installed managers continued to receive millions of dollars in payouts even as tens of thousands of workers were laid off without severance pay and creditors went unpaid. (The workers eventually got some compensation, but only a fraction of what the bankruptcy lawyers for Toys 'R' Us received.)

Among the tactics PE investors use to wring as much money as possible out of acquired companies are drastic cost-cutting (including mass layoffs), imposing excessive fees on the acquired company for dubious services, and further borrowing to fund dividend payments to the acquirers, which can in turn necessitate even more cost-cutting. Those cuts in staffing and other expenses often and predictably lead to poorer service and drain resources from productive capital and worker investments. While poor service may only be an inconvenience for customers of many PE-owned businesses, like clothing stores and restaurants, in areas like healthcare–a field private equity is increasingly invading–such a decline in service quality can lead to inflated medical bills, physical harm, increased illness and even premature death.

The extractive business model of private equity is unknowingly subsidized by the public in the form of an accommodating tax code. Preferential tax rules, income-misclassification schemes, and other loopholes–plus weak IRS enforcement of those restrictions that do exist–help make PE particularly profitable.

HOW PRIVATE EQUITY WAS BORN

After widespread investment fraud contributed to the 1929 Wall Street crash and subsequent Great Depression of the 1930s, the federal government moved to regulate how big companies raised money from investors. Ever since, publicly traded firms selling shares to the general population have been required to offer detailed, ongoing information on business models, financial condition and potential investment risks. Those disclosure requirements and other securities laws not only protect investors but give the workers, customers, and communities of publicly traded companies a better ability to monitor and influence corporate behavior.

Companies that remained outside this regulatory framework were generally constrained in how much capital they could raise. These capital-funding restrictions effectively limited how big most privately held companies could get. But those rules were loosened in the 1980s and 1990s, giving birth to the modern private-equity industry.

Private equity now controls about one-fifth of our economy, up from about 4% at the turn of the century. The number of public companies has declined by about half since the deregulation of the 1990s. By 2022, private equity firms owned about 18,000 U.S. companies, more than four times the number of publicly traded U.S. firms.

> " **THE WORKERS GOT ONLY A FRACTION OF WHAT THE BANKRUPTCY LAWYERS RECEIVED.**

PRIVATE EQUITY'S VICTIMS: HOUSING CASE STUDY

Over the last decade, private equity firms have been building real estate empires, acquiring over one million housing units spread through all rental sectors: single-family homes, apartment units, mobile home communities, student housing, and subsidized housing.

Private equity landlords increase the value of a property by increasing its cash flow. They raise rents and make tenants pay new fees in order to increase revenue, and then they cut costs by neglecting maintenance and repairs, reducing staff, and aggressively evicting tenants who fall behind.

Private equity firms have recently been buying up mobile-home parks throughout the country. Between 2015 and 2021, private equity firms and real estate investment trusts bought about 25 percent of all manufactured housing lots nationwide. These firms have increased lot rents and fees, which has disproportionately affected families who live on fixed incomes like retirees and individuals unable to work due to disability. Evicting residents who are unable to keep up with rising rents can be lucrative, as residents who are forced to leave may abandon their homes or sell to the park owner at a steep discount.

Private equity firms have been aided in their acquisitions of manufactured home parks by the U.S. government-sponsored lenders Fannie Mae and Freddie Mac. They financed almost half (49%) of all private-equity-owned park sales between 2008 and 2022, the great bulk of the two agencies' mobile-home-park financing.

Theo Gantos (right) and his wife are residents of Mt Morris Estates, a manufactured-housing park owned by Alden Global Capital in Genesee County, MI. (Though Alden is generally classified as a hedge fund because it mostly invests in publicly traded companies, in this instance it behaved more like a private equity fund by buying and actively managing a company.)

THEO GANTOS

My wife and I have lived in North Morris Estates, a manufactured housing community in Genesee County, MI, for 15 years. I love my home. I love my community. But since Homes of America, an affiliate of Alden Global Capital, bought our park, it feels like my community doesn't love me back.

We, like most residents, can't move our home. The choices are fight back or give up. Anyone who knows us knows we aren't giving up.

When Homes of America took over, they increased our rent by $100 a month over two years. We had proof our rent was always timely and our checks cashed, but they tried to evict us for unpaid rent and 19 late charges going back two years. We quickly learned to send our rent via certified mail and demand receipts.

They left dozens of homes empty and rotting, creating dangerous conditions and blight. When we, like others, requested repairs to make our community safer, we were either told to pay for the work ourselves or faced retaliation. After we reported Homes of America's unpermitted construction, they bulldozed our beloved Monarch Waystation [a refuge for migrating Monarch butterflies] and left a pile of dirt and uprooted flowers. They ignored requests for basic infrastructure repairs, and our community pool and clubhouse have been closed since 2022 due to lack of maintenance.

They often shut off water without notice, leaving us unable to finish a shower, wash dishes, or clean. We've resorted to keeping a full bucket in the tub to flush during shutoffs. Even when it's on, it's not uncommon for brown, putrid water to come out of our taps.

For too long folks living in manufactured-housing parks have been subject to the profit-driven whims of predatory, absentee corporate landlords like Homes of America and Alden Global Capital. Private equity firms must be held accountable for their mistreatment of tenants like us —because no one should feel like a prisoner in their own home.

THE BIGGEST PLAYERS AND MOST VULNERABLE SECTORS

Among the biggest U.S. private equity firms are Blackstone, KKR (the "barbarians at the gate" from the 1980s), and the Carlyle Group. Private equity is so profitable that the founders of these companies are among the wealthiest people in the world: Stephen Schwarzman (Blackstone; personal wealth of around $50 billion); Henry Kravis (KKR; around $19 billion); and David Rubenstein (Carlyle, around $4 billion).

Private equity in recent years has moved into sectors in which the industry's history of sacrificing service quality in pursuit of cost reduction can pose particular threats to vulnerable populations: healthcare, low-income housing, and prisons.

The higher interest rates of the past few years have crimped the industry, since it thrives on cheap loans. But it's estimated that PE firms are holding nearly $1 trillion of investor money that will allow them to take even more companies private–and potentially inflict more damage to multiple stakeholders in the process.

HOW SPECIAL TAX RULES AID THE GROWTH OF PRIVATE EQUITY

Special breaks in the tax code make private equity even more lucrative for the firms and their wealthy owners and incentivize the financial engineering and predatory extraction that undermines the viability of the companies they acquire. At least one of those loopholes is tied up with the expiration at the end of 2025 of most of the 2017 Trump-GOP tax law, which cost nearly $2 trillion and gave most of that money to corporations and the wealthy. The large-scale overhaul of tax rules necessitated by those expirations offers the opportunity to address several of those special private-equity tax breaks.

INTEREST DEDUCTION

Because PE relies so heavily on debt to finance leveraged buyouts and extract dividend payments, deducting interest payments on all those loans is a big source of tax savings. Among the few revenue raisers in the Trump tax law was a tightening of the rules on business-interest deductions. First, it limited how much interest a firm could deduct from its federal taxes to 30% of a common measurement of profits: earnings before interest, taxes, depreciation and amortization (EBITDA). Then, starting in 2022, the profit measure used to figure the deduction limit was tightened to earnings before interest and taxes (EBIT). This meant that firms would apply the interest deduction to profits after deducting depreciation and amortization, reducing the amount of earnings used to figure the deduction and therefore the amount of tax-deductible interest.

The private-equity industry was one of the major beneficiaries of the former, weaker interest-

> “ **SPECIAL BREAKS IN THE TAX CODE MAKE PRIVATE EQUITY EVEN MORE LUCRATIVE.**

deduction rules because of its tendency to load up target companies with debt and to take on additional debt to fund dividend payments to the PE owners. Acting alone and through their industry organization–the American Investment Council (AIC)–private equity firms have been working furiously to reinstate the looser, pre-2022 interest-deduction rules. The AIC has spent almost $10 million lobbying over the past four years, including on the interest-deduction rules in 2022, the year it was tightened.

Here’s an example of why looser interest-deduction rules are so important to private equity. In 2019, Instant Brands—maker of Instant Pot cookers and Pyrex kitchen products—was acquired by the private equity firm Cornell Capital. In 2021, Cornell forced Instant Brands to take out a $450 million loan to refinance debt from the 2019 acquisition and to make a $245 million dividend payout to shareholders, of which Cornell Capital received 70%. A business newspaper noted that “essentially none of the debt supported investment in the business.”

In 2022, the company’s EBITDA was a little over $57 million which means under the old looser rules they would have been able to deduct up to $17 million more from their federal tax bill that year than the new rules allowed. In 2023, laden with interest payments that were likely to outpace their revenue, Instant Brands filed for bankruptcy, threatening the jobs of its 1,800 North American employees.

CARRIED INTEREST LOOPHOLE

Private-equity fund managers are compensated in two ways by their investors. They are paid a percentage (usually 2%) of the total assets of the fund and a bigger percentage (usually 20%) of the fund’s investment gains above a certain threshold. This second, potentially bigger source of income–known as “carried interest”–enjoys one of the most universally reviled special breaks in the whole tax code.

The carried interest loophole allows private-equity fund managers to cut the taxes they pay on their income from PE funds nearly in half by falsely characterizing that income as long-term capital gains instead of employment compensation. Long term capital gains on investments held over a year are taxed at a top rate of 20% (plus 3.8% on the highest incomes), while “ordinary” income like wages is taxed at a top rate of 37% (plus payroll taxes). Though top PE managers can make millions of dollars a year, this 20% tax rate is lower than the marginal tax rate of 22% applied to ordinary individual income between roughly $50,000 and $100,000 in 2025.

This tax break is a huge giveaway to private equity barons. Just the top four named executives

PRIVATE EQUITY'S VICTIMS: HEALTHCARE CASE STUDY

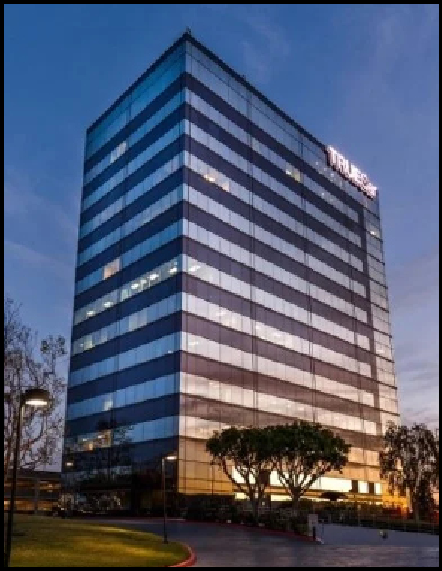
Virtually every corner of U.S. healthcare has seen private equity investment, including hospitals, behavioral health, medical-debt collection, emergency medicine, travel nursing, clinical research, medical equipment, physician practice management, dental care, home health and hospice, child care and more.

The disastrous consequences of the extractive private equity business model have been borne by patients, healthcare workers and the communities they serve. Private-equity-owned healthcare companies might raise prices for healthcare services, push expensive procedures, and use less staff or staff with fewer qualifications. Understaffing can lead to lower-quality care and patient safety issues. A recent research study found that adverse events at hospitals, such as patient falls and hospital-acquired infections, increased by 25.4% following a private-equity buyout. Another study found that private equity ownership of nursing homes can increase the mortality rate of Medicare patients by 10%.

As of January 2024, private equity firms owned approximately 460 hospitals in the US, representing 8% of all private hospitals and 22% of all for-profit hospitals.

A bipartisan report released in January 2025 by the U.S. Senate Budget Committee revealed how private equity's rising involvement in healthcare can "harm patients, degrade care and drive hospital closures."

Prospect Medical Holdings provides a particularly informative case study of how private equity's financial tactics at hospitals can harm patients, workers, and communities.



PROSPECT MEDICAL HOLDINGS

Prospect Medical Holdings, a safety-net hospital system with 16 hospitals across California, Connecticut, Pennsylvania, and Rhode Island, is facing financial distress at many of its facilities nearly four years after private equity owner Leonard Green and Partners exited its investment, having siphoned hundreds of millions of dollars from the system.

Over the course of its ten-year ownership, PE firm Leonard Green & Partners, along with Prospect's minority owners, siphoned approximately $658 million in fees and dividends from the hospital system in part by saddling it with debt and using the proceeds of the loans to pay themselves.

They collected this money out of Prospect even as many of its hospitals suffered deteriorating financial conditions and quality concerns. Under private equity ownership:

- *Prospect's hospitals had some of the lowest quality ratings from the Centers for Medicare and Medicaid Services.*
- *Prospect's Culver City hospital had water dripping from the ceiling when it rained, and mold and mushrooms growing out of the wall at a nurses' station.*
- *The California Attorney General formally charged Prospect executives with "gross negligence" related to persistent mold contamination of a hospital pharmacy, including in equipment used to mix patient medications.*
- *Prospect completely shut down all of its facilities in San Antonio—laying off nearly 1,000 workers—and sold its hospital building to a hotel developer.*
- *In Rhode Island, poor infection control led to COVID-19 infection of 19 of the 21 geriatric psychiatric ward residents: six of them died. Six housekeeping staff also got COVID due to limited access to personal protective equipment (PPE). The head of the department died.*
- *In Pennsylvania, paramedics were at times unable to fuel up their ambulances because their gas cards were declined after Prospect failed to pay its bill.*

at Blackstone reported $955 million of carried-interest income between 2019-23; the top four at KKR reported $953 million. (The other managing partners at both firms undoubtedly reaped many millions more in carried interest payments). Taxing this income as long-term capital gains rather than ordinary income offered these eight executives alone a tax break of over $335 million (see Table 1).

TABLE 1.
CARRIED INTEREST INCOME OF TOP FOUR EXECUTIVES AT BLACKSTONE AND KKR 2019-2023

($ millions)

	2019	2020	2021	2022	2023	5-year total	Tax rate		Carried Interest Loophole Tax Savings
							20% (Long-term capital gains)	37% (Ordinary income)	
Blackstone	**$112.94**	**$162.71**	**$257.83**	**$371.16**	**$126.47**	**$1,031.11**	**$206.22**	**$381.51**	**$175.29**
Schwarzman	$53.49	$78.44	$148.08	$190.45	$79.59	$550.05	$110.01	$203.52	$93.51
Gray	$52.79	$71.81	$91.73	$162.06	$37.67	$340.18	$68.04	$125.87	$57.83
Chae	$5.36	$10.32	$14.02	$13.66	$7.07	$50.43	$10.09	$18.66	$8.57
Finley	$1.30	$2.14	$4.00	$4.98	$2.14	$14.57	$2.91	$5.39	$2.48
KKR	**$131.21**	**$154.05**	**$246.36**	**$273.15**	**$138.50**	**$943.26**	**$188.65**	**$349.01**	**$160.35**
Kravis	$39.18	$41.26	$66.28	$77.21	$34.12	$258.05	$51.61	$95.48	$43.87
Roberts	$39.18	$41.26	$66.28	$77.21	$34.06	$257.98	$51.60	$95.45	$43.86
Bae	$26.32	$35.68	$58.25	$60.25	$36.61	$227.11	$45.42	$84.03	$38.61
Nutall	$26.52	$35.86	$55.55	$58.48	$33.71	$210.12	$42.02	$77.74	$35.72
TOTAL TAX SAVINGS: $335.64									

Source: SEC 10-K filings Summary Compensation Tables

Even aside from the tax inequity, carried interest creates significant "moral hazard" because it incentivizes excessive risk-taking, since PE managers benefit asymmetrically from high returns while their downside is limited (usually to a fund managers' small equity contribution to the fund, normally in the range of 1-2%). This misalignment of incentives allows fund managers to reap substantial profits if investments perform well, without requiring them to share proportional losses if the investments fail. The preferential tax treatment of carried interest exacerbates this issue, encouraging managers to prioritize their own financial gains over the long-term interests of investors and of portfolio companies and their workers.

Though Donald Trump campaigned in 2016 on eliminating the carried interest loophole, his 2017 tax law only made a minor reform: extending to three years the "holding period" for investments whose sale generates income eligible for the tax break (it previously was one year). But virtually all private equity investments are held for more than three years (in fact, usually five to seven years), making this new threshold almost meaningless as reform. And sophisticated accounting gimmicks like carry waivers can shift gains sold short of the minimum holding period to other investments that will be sold after the minimum, essentially eviscerating the holding-period requirement entirely. The failure of the 2017 tax law to close the carried interest loophole has been called "a home run for private equity investors."

The version of the "Build Back Better Act" passed in 2021 by the House Ways and Means Committee partially shrank the carried interest loophole by further extending the holding-period requirement to five years, among other changes. But because, again, most fund investments are held longer than five years anyway, this reform again was slight. The committee's plan also exempted real-estate gains from the longer holding requirements.

Senate Democrats included eliminating the carried interest loophole in their first draft of 2022's Inflation Reduction Act, but a single Senator—in the pocket of the private equity industry—forced its removal at the last minute. President Biden in his annual budgets repeatedly called for eliminating the carried interest loophole for money managers making over $400,000 a year. These proposals have also been echoed in legislation spearheaded by Sen. Tammy Baldwin (D-WI).

The carried interest loophole also allows fund managers to defer tax on their compensation until the fund's investments are sold, while all other workers pay taxes on their labor income as it's earned. None of the above proposals address the deferral of taxation on carried interest. Sen. Ron Wyden (D-OR), the top Democrat on the tax-writing Senate Finance Committee, has introduced legislation entitled Ending the Carried Interest Loophole Act. It fully closes the carried interest loophole by addressing both the preferential tax rate and the deferral of tax. Fund managers would pay tax on all their compensation as it is earned and at ordinary income rates.

> "DEMOCRATS INCLUDED ELIMINATING THE CARRIED INTEREST LOOPHOLE IN THE INFLATION REDUCTION ACT, BUT A SINGLE SENATOR—IN THE POCKET OF THE PRIVATE EQUITY INDUSTRY—FORCED ITS REMOVAL.

PRIVATE EQUITY'S VICTIMS: CLIMATE & ENERGY CASE STUDY

The private equity industry has over a trillion dollars in energy investments that generate high greenhouse gas emissions. PE is buying up offshore drilling in the Gulf of Mexico, propping up fracking operations, prolonging dirty-fuels usage by building infrastructure like pipelines and natural gas export terminals, and polluting through gas and coal power plants. As of 2024, private equity firms are responsible for 1.17 gigatons of annual emissions.

In addition, private equity has been a key driver of the liquefied natural gas (LNG) industry through significant investments in existing and proposed LNG export terminals. Current investments by private equity firms are responsible for emissions surpassing 28 million metric tons of CO2 equivalent per year from just seven LNG terminals.

One of these projects is the Rio Grande LNG terminal, owned by private equity firm Global Infrastructure Partners (GIP). The project plans to export 3.73 billion cubic feet per day (bcf/d) of methane, emitting over 11 mt CO2e/yr in the Rio Grande Valley in South Texas.

Bekah Hinojosa is a community organizer and co-founder of the South Texas Environmental Justice Network. She lives in the Rio Grande Valley of South Texas, where the Rio Grande LNG terminal is being built.

BEKAH HINOJOSA

I was born and raised in the Rio Grande Valley of South Texas. We're primarily a Brown and Indigenous community, and our region is surrounded by border militarization and checkpoints. We're facing a massive fossil-fuel buildout of LNG terminals and oil industry that's threatening to sacrifice the Gulf Coast with pollution. We're experiencing climate disasters like hurricanes, droughts, and flooding, which is making worse our crumbling infrastructure like bad drinking water and unreliable electricity.

My community has been resisting the proposed Rio Grande LNG, Texas LNG, and Rio Bravo Pipeline project, doing everything we can to stop them from being built. We've made it clear that we don't want these projects, including by passing multiple anti-LNG resolutions and lawsuits trying to keep these dangerous fossil fuel projects out. But the company, Rio Grande LNG, which is owned by a private equity firm, has kept pushing to build it despite our opposition.

We believe that if built, the Rio Grande LNG would be the biggest polluter in the region. We've compared their own pollution estimates to the EPA's and found that it would lead to a spike in particulate matter which is damaging to respiratory health and volatile compounds (which are cancer causing emissions), as well as a tremendous amount of greenhouse gasses which are terrible for the climate.

On top of that, Rio Grande LNG has already been bulldozing wetlands, mudflats, and pristine habitats in its construction, which are sacred lands of Carrizo Comecrudo Tribe of Texas. The LNG site is also right next to a shipping channel where the shrimp boats dock and the shrimp population lay their eggs, which is important to our shrimping & fishing economy.

Rio Grande LNG recently got approved for a tax abatement from the Cameron County commission. If the project is built, they'd get over $300 million over ten years in tax abatements from our impoverished community.

It will add insult to injury that they'll avoid paying their fair share of taxes. There are many people in our community who are low income and struggling to pay their bills, and they don't get any tax abatements. But they'll still be forced to breathe in LNG air pollution.

One of the company's talking points for getting the tax break is that they'd bring jobs, but we deserve jobs that don't put our health and lives at risk. We want jobs in ecotourism and education - jobs that strengthen our community, not destroy it.

FEE WAIVERS

Private equity executives also use other income-misclassification schemes, such as "fee waivers", to further capitalize on the difference between capital-gains and ordinary-income tax rates. PE executives or managers can offer investors a waiver of the standard 2 percent management fee in exchange for an equivalent share of potential investment profits. This fee waiver arrangement effectively converts a portion of the managers' fee compensation into investment gains. Tax lawyers have called this transmutation the "holy grail" because it transforms fee income that would be taxed at the 37 percent ordinary-income rate into carried interest taxed at the significantly lower top capital gains rate of 20%. In one striking example, Bain Capital used a management fee waiver to convert approximately $1 billion in management fees, which would have been taxed as ordinary income, into fund profits taxed at the capital gains rate, potentially saving partners some $200 million in income taxes.

MONITORING FEES

Private equity owners often disguise dividend payouts as "monitoring fees" for questionable services. Unlike actual dividends, these monitoring fees can be deducted from the portfolio company's taxes, creating a subsidy for the leveraged buyout model and freeing extra funds to extract. The monitoring element is deceptive, since the PE firms do little monitoring to justify charging sometimes hundreds of millions of dollars in fees to their portfolio companies. A 2015 University of North Carolina study found that PE firms charged 600 companies $20 billion in monitoring fees over 20 years that should have been reported as dividend income.

EXCLUSION FROM CORPORATE MINIMUM TAX

The Inflation Reduction Act of 2022 took a big step towards ending the scandal of big profitable corporations paying little or nothing in federal income taxes. It created a 15% Corporate Alternative Minimum Tax (CAMT) on firms with over $1 billion in annual profits as reported to investors (so-called "book earnings," which is usually larger than taxable income). But last-minute private-equity lobbying exempted most PE firms from the tax by allowing the profits of each company in a private-equity portfolio to be counted separately rather than as a whole when determining whether the income threshold had been crossed.

WEAK IRS ENFORCEMENT OF TAX RULES

Private equity's tax avoidance strategies are compounded by the IRS's diminishing ability to audit these firms and enforce tax regulations. IRS budget cuts have depleted staff and expertise necessary to untangle the complex layers of private partnerships and ownership structures commonly used by private equity firms. The IRS has lost one-third of its staff with the expertise and experience to audit very complex tax returns. In 2020, fewer than 0.05% of pass-through partnership businesses including private equity firms faced audits, down sharply from 2010. One former IRS official described the PE auditing program as "almost nonexistent." The restored funding for the IRS included in the Inflation Reduction Act of 2022 may once again allow the agency to submit the industry to the necessary informed scrutiny, but Republicans in Congress have been trying (with some success) to rescind that funding ever since.

PRIVATE RICHES: THE PRIVATE EQUITY BILLIONAIRE

Though frequently damaging to the workers, customers and communities it impacts, private equity can be a bonanza for the people who control it. Among the nation's 800 or so billionaires, at least 51 can thank private equity for their immense riches. (The number is probably higher: PE activity can be described by other names.)

The tax breaks described in the section above have contributed to this rise of the private equity billionaire. PE billionaires have seen their collective wealth grow almost five-fold–up nearly $200 billion–in just the seven years since the enactment of the 2017 Trump-GOP tax law, whose benefits were heavily slanted towards the wealthy.

Tax returns are private so it's generally impossible to know how much PE billionaires pay each year. But in 2022 ProPublica obtained and released return data covering the six years 2013-18 on hundreds of rich taxpayers, including 43 whose source of income was classified as private equity. As a group, these highest-earning PE taxpayers paid an average federal income-tax rate of 21.6% over that six-year span, on a total of $8.2 billion of income.

During all but the last year of that span, the top ordinary income-tax rate was 39.6%. In 2017, individual taxpayers began to pay that top marginal rate on ordinary income over roughly $420,000. The average income of the high-income PE taxpayers was $190 million; none took in any less than $110 million. So how did their average tax rate manage to come in at under 22%?

Here's where the carried interest loophole described above comes to the private-equity taxpayer's rescue. Thanks to the loophole, a big chunk of the private-equity executive's income that would normally be taxed at ordinary rates–income earned for managing a PE fund's investments–is instead classified as capital gains eligible for the discounted, 20% rate. (At these levels of income, a 3.8% surtax is also due.)

In fact, it's estimated that over 83% of the income received by the PE taxpayers in the ProPublica release was taxed at this favorable rate, collectively saving them billions of dollars over those six years. An ATF analysis based on a recent study from Oxford University estimates that the carried-interest loophole saved American PE executives $142 billion in federal income taxes over the first 20 years of this century.

> “ **THE CARRIED INTEREST LOOPHOLE SAVED AMERICAN PRIVATE EQUITY EXECUTIVES $142 BILLION IN FEDERAL INCOME TAXES FROM 2000-2020.**

And that’s not where the tax savings end. The biggest source of income among billionaires like the top PE executives is the annual growth in the value of assets they don’t sell–what are known as “unrealized capital gains.” But at these levels of wealth and of wealth growth, there’s no need to sell to benefit: top PE execs can obtain low-interest loans secured against their rising fortunes and live luxuriously tax-free. (Whatever interest they pay is tiny compared to the tax they would otherwise owe on a sale.)

Under current tax law, unrealized gains go untaxed forever. (President Biden and the Democratic chairman of the Senate tax-writing committee wanted to change that for the ultra-wealthy.) But if that crucial form of income for the hyper-wealthy is added to their reported income, tax rates among the wealthy fall even farther.

ProPublica only identified the handful of top-income taxpayers among the returns it disclosed, leaving the rest anonymous. Among the 43 members of the PE group, only the six with the greatest income had their names connected to their returns. Those six paid an average tax rate of 21.4% on their reported income over the period 2013-18. But when their wealth gains are included in their income, the rate is cut nearly in half, to just 11.3%. In a recent year, the average American family paid a federal tax rate of 14.9% on all their income.

There are other ways to get rich from PE beside being one of the managing partners of a firm. Even though the industry’s whole business model is predicated on taking public companies private, some of the biggest private-equity firms have done just the opposite with themselves. The largest U.S. PE firm of all, Blackstone, went public in 2007. One hundred shares purchased at the original offering price of $31 apiece, or $3,100, were worth nearly $20,000 in late November 2024, an over six-fold increase. Of course, wealthy investors–who make up the great bulk of stock market players–bought much more than 100 shares and made commensurately more in profits.

The tax code also aids these public investors in private equity. Besides the tax-rate discount on dividends and capital gains enjoyed by the investors themselves, loopholes and special breaks in the corporate-tax rules limit how much the companies themselves pay, leaving more money for payouts to shareholders. Over the first five years of the Trump tax law, the Carlyle Group–another private equity firm that went public, in 2012–paid a corporate tax rate of just 9% on almost $7 billion in profits. Blackstone paid only 5% on $26 billion in earnings.

PRIVATE EQUITY'S VICTIMS: WORKERS & JOBS CASE STUDY

Private-equity-owned companies employ nearly 12 million workers in the U.S., making up a significant portion of the labor force. As private equity's influence in the economy continues to grow, it has been characterized by single-minded profit-seeking accompanied by troubling patterns of labor exploitation and hazardous working conditions. Private equity's characteristically aggressive cost-cutting strategies often come at the expense of worker safety and labor rights.

One example of the impacts private equity ownership can have on workers can be seen in the Video Relay Service (VRS) industry, which supports communication for the deaf and hard of hearing. Two private equity-owned companies—Sorenson Communications, backed by Ariel Alternatives, and ZP Better Together, owned by Kinderhook Industries with backing from The Carlyle Group—control nearly the entire VRS market.

Meg Huseman is an American Sign Language (ASL) interpreter fighting for better working conditions at Sorenson Communications.

MEG HUSEMAN

I work in the Video Relay Service (VRS) industry, which supports communication for the Deaf and hard of hearing. In my 15 years working as a VRS interpreter I have spent 10 years at Sorenson, which is now owned by Ariel Alternatives. I've recently joined the ASL Interpreters Union with hopes for a better VRS system that retains qualified interpreters and provides a better service to ASL users like my daughter.

In the last several years, Sorenson has abandoned the Deaf community and their employees with their profit-over-people approach. Layoffs and numerous changes at Sorenson hurt Deaf employees and impacted our ability to do the job for the long term. The work can be traumatic and we have little support; my first call might be to a doctor's office, then I might get a call for a parent-teacher conference, after that I might get a call from a mechanic shop talking about a car, then I hear the all-too-familiar ding of a 911 call. I might be witnessing an accident where the Deaf person is calling from their cell phone and I can see they are bleeding, in shock or panicking (911 calls are very distressing). The resources for interpreters who experience vicarious trauma are almost nonexistent at my company.

I know the company gets federal reimbursements through the FCC to meet specific service standards, but I can see that private-equity ownership has turned the VRS industry into a vehicle for extracting profits at the expense of both service quality and worker well-being. Sorensen should of course be able to make a profit, but they are making a killing at our expense.

For too long, we've faced atrocious working conditions and underwhelming compensation. I support a union because without one Sorenson will continue to harm the Deaf community and my family. Our union has requested to meet with Sorenson's private equity owners, but so far, they have refused.