Hedge funds threaten to leave Connecticut over surcharge

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MARC E. FITCH APRIL 12, 2017

The president of the Connecticut Hedge Fund Association told lawmakers Tuesday in no uncertain terms that hedge fund companies would move to other states if Connecticut imposed a 19 percent surcharge on investment management services.

CTHFA President Bruce McGuire told the finance, revenue and bonding committee that many Connecticut investment firms originally came from New York and chose Connecticut because of its formerly favorable tax climate.

"Therefore one could argue that Connecticut's investment management industry is populated by exactly that type of person that will move based on tax policy," McGuire said in his testimony.

He also warned that Florida is actively trying to lure hedge funds and financial services firms to the sunshine state, which has no state income tax. Connecticut has already lost some high profile financial managers to Florida in the past few years.

Investors typically pay a 20 percent capital gains tax on income from service fees, which are fees an investor is paid based on investment performance. This is lower than the normal top income tax rate of 39.6 percent. The proposed legislation – **House Bill 7313 (https://www.cga.ct.gov/asp/cgabillstatus/cgabillstatus.asp?selBillType=Bill&bill_num=HB07313&which_year=2017)** – seeks to close that gap and treat the service fees as regular income.

The bill has little chance of actually becoming law because it is dependent on New York, Massachusetts and New Jersey making the same law to prevent investment firms from simply relocating across state lines.

As Democrats Float Higher Taxes on the Wealthy, Hedge Fund CEO Asks: Florida or Texas? (https://yankeeinstitute.org/2019/04/26/democrats-float-higher-taxes-on-the-wealthy-hedge-fund-ceo-asks-florida-or-texas/)

APRIL 26, 2019

As Democrats in the legislature float proposals to raise the income tax rate on Connecticut's highest earners and increase the capital gains tax, Chief Executive Officer for Greenwich-based

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So far, Connecticut is the only state where the legislation has even received a public hearing.

But that hearing was stacked with union representatives, and union-funded organizations who all supported the tax, claiming the estimated $500 million in revenue could help close state budget deficits.

Lindsey Farrell, president of the Connecticut Working Families Party, submitted written testimony which claimed the idea that wealthy residents leave the state due to taxes is a "myth" and Connecticut is actually gaining billionaires, according to a report in Forbes Magazine.

However, the claim that Connecticut was not losing wealthy residents drew a stiff rebuke from Rep. Terrie Wood, R-Darien, in a back and forth with AFSCME Local 1303-025 President Mark Krauchick.

"What you just said is counter to what all of understand to be fact, that we've got a net outmigration of population and a net outmigration of people of considerable means," Wood said.

Under questioning by Wood, Krauchick admitted that could not name the new billionaires or what business they were in.

Sen. L. Scott Frantz, R-Greenwich, clarified later in the meeting that the three new billionaires in Connecticut have lived in the state "for close to twenty years," but just recently made Forbes' list. "We don't have billionaires coming to Connecticut," he said.

Frantz reiterated that making this policy at the state level rather than the federal level would just "punish" the people of Connecticut by driving out wealth to other states. "These are the people you don't want to lose," Frantz said. "The net loss would be massive."

Unions and union-backed organizations have stepped up their criticism of Connecticut's wealthier residents in recent weeks. The Connecticut Working Families Organization held a **"Lifestyles of the Rich & Shameless" (http://www.institutionalinvestor.com/article/3672978/asset-management-hedge-funds-and-alternatives/in-connecticut-the-bonfire-of-the-vanities-still-smolders.html#/.WO429scyflJ)** bus tour on March 25 that stopped at the residences of CEOs in Greenwich to protest "tax loopholes" and general income inequality.

Krauchick attended the protest two weeks before he testified in support of the bill. He told a reporter for **The Guardian (https://www.theguardian.com/us-news/2017/mar/27/connecticut-debt-tax-loophole-greenwich-rich-residents)** he was "angry."

A "couple dozen" protesters left **billion dollar "tax bills" (https://www.theguardian.com/us-news/2017/mar/27/connecticut-debt-tax-loophole-greenwich-rich-residents)** on their driveways of people like Ray Dalio of Bridgewater Associates and Steven Cohen of Point72 Asset Management. The also inflated a giant pig outside the offices of AQR Asset management.

Both those companies have drawn the ire of public sector unions because they received millions of dollars through Gov. Dannel Malloy's First Five program. AQR Capital, in particular, had threatened to move out of state but was mollified by $35 million in

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APRIL 25, 2019

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grants and loans by the state.

Connecticut has the third largest concentration of hedge funds in the world and its finance industry is the backbone of the state's economy, employing **14.1 percent of the state's labor force (http://www.hartfordbusiness.com/article/20170131/NEWS01/170139987/report-financial-services-sector-key-to-cts-economy)** and accounting for one fifth of the state's gross domestic product.

Connecticut has already lost some hedge fund managers to states like Florida, most notably Paul Tudor Jones, who took with him $30 million in income tax revenue, and **Edward Lampert (http://www.greenwichtime.com/news/article/Lampert-folds-up-tent-in-Greenwich-moves-hedge-3611740.php)**, who moved his $9 billion hedge fund to Florida in 2012.

The prospect of hedge funds and financial companies moving out of state is particularly sensitive during a time of budget deficits that are due partly to lower-than-expected income tax revenue.

The 100 top-earning income tax filers have accounted for **nearly all of a $30 million decline (http://www.yankeeinstitute.org/2017/02/connecticuts-wealthiest-taxpayers-cause-big-changes/)** in this years expected income tax revenue, according to a report by the Office of Fiscal Analysis.

A 2014 study found that only 357 families in Connecticut account for 14.1 percent of all income tax revenue, paying $682.5 million into state coffers in 2014. So the prospect of losing some of those high income earners could roil politicians trying to deal with ever present state deficits.

Rep. Vincent Candelora, R-North Branford, said that unless this were a federal law, it would just invite more outmigration of wealth.

"When we start looking at the state level, that's where it could drive individuals to leave the state and go to another state because it's not a uniform tax basis," Candelora said. "We deal with that issue all the time."

Marc E. Fitch

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