United States Senate
WASHINGTON, DC 20510

November 16, 2007

Senator Mitch McConnell
Senate Republican Leader
Capital Building, S-230
Washington, D.C. 20510

Dear Senator McConnell:

As members of the Senate Republican Capital Markets Task Force, we are committed to fostering the competitiveness of American businesses in the global economy. In light of legislation introduced in the House earlier this year that would increase taxation of carried interest and publicly traded partnerships, we met with various groups that would be affected. Now, with the passage of H.R. 3996, the Temporary Tax Relief Act of 2007, we believe it is an appropriate time to report our findings to you. The undersigned members of the Task Force believe that the Senate should not increase the tax rates on carried interest and publicly traded partnerships to offset H.R. 3996 or any other legislation that may come before the Senate.

Republican economic policies such as cutting marginal tax rates and reducing taxes on capital gains and dividends have produced tremendous growth in our economy. The Jobs and Growth Tax Relief Reconciliation Act of 2003 spurred capital creation that, combined with a robust global economy, contributed to the creation of eight and half million new jobs and historically low unemployment rates. Rather than building on the proven success of these tax policies, H.R. 3996 goes in the opposite direction by increasing taxes on capital formation.

In order to better understand the global implications of increasing taxes on carried interest and publicly traded partnerships, the Capital Markets Task Force has held a series of roundtable meetings with key participants in this sector and learned the following. First, H.R. 3996 makes fundamental changes to the laws affecting the taxation of partnerships. These partnerships have successfully encouraged the pooling of capital, ideas, and skills in a manner that promotes entrepreneurship and risk taking. Second, by significantly raising taxes on capital formation in the United States, these provisions will increase the cost of, and decrease the availability of, capital to businesses throughout the country. Third, these provisions have the potential to severely handicap a vibrant and growing part of the U.S. economy in terms of its global competitiveness. Fourth, virtually every Western European nation taxes carried interest as a capital gain. Fifth, there is a risk of a loss of intellectual capital to London or other jurisdictions.

As you know, international competition for capital is a driving factor for business. At a time when many of us are raising concerns regarding the competitiveness of the U.S. capital markets and our economic competitors are doing everything they can to emulate the success of our capital markets, the last thing we should do is put American businesses at a disadvantage by increasing taxes on capital formation and driving investment dollars away to other markets. In short, U.S. public policy should be used to ensure that U.S. businesses can continue to compete in the global market. Therefore, the Senate should not tax long term investments in a way that puts America at a competitive disadvantage.

Sincerely,

Mike Crapo — John Ensign

Judd Gregg — Kay Bailey Hutchison

Saxby Chambliss — [illegible]

Michael B. Enzi — Mel Martinez

John E. Sununu — Jim DeMint

[illegible] — John Cornyn

Pat Roberts — Jon Kyl

Wayne Allard

Jim Bunning

Kit Bond

Orrin G. Hatch

John Thune

David Vitter