

## TAX AX IS SWINGING

By PAUL THARP

*June 26, 2007* -- Hiking taxes on the super rich may seem like a dream to Washington - but it's churning up nightmares of huge back taxes on personal fortunes.

With Congress moving swiftly to dismantle perks and loopholes for Wall Street's rich and powerful, the moneyed are pushing back - letting their lobby money do their talking and cajoling on Capitol Hill.

But Democrats are betting they have a winning hand in taxing Wall Streeters whose private partnerships have switched to publicly traded entities.

What has the lobbyists baring their teeth is the issue of whether the public partnerships should be allowed to pay the 15 percent capital gains tax rate on their profits instead of the 35 percent ordinary income tax rate.

One proposal winding through Senate offices is whether to go after billionaires like Blackstone chief Stephen Schwarzman and archrival Henry Kravis for at least a half year of back taxes, based on the timing of the bill.

A fierce fight is also shaping up over a House bill introduced last week that would require a huge rewrite of the existing tax code to clearly define whether investors who put up money and

aren't involved in administration are entitled to the capital gains tax rate.

Investors - like Schwarzman - who actively manage the assets of the partnership would have to pay ordinary income taxes, at the higher rate.

More than \$6 billion in tax revenue is lost annually to those abuses, experts say. In any event, the 15 percent capital gains tax rate expires at the end of 2008, and could return to its prior level of 26 percent.

Hammering out the defining details amid expected record lobbying spending could take the rest of the year and extend into 2008's presidential season.

**"Before this is over, there'll be a lot of late nights of fighting and trying to make the law," said Dawn Levy, a tax law expert with lobbying firm Cassidy & Associates.**