

Proposed Tax Legislation Affecting Hedge Funds

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Bills introduced this week in both the House and the Senate contain two provisions that are of particular significance to hedge funds. One provision would materially alter the tax treatment of offshore hedge funds with U.S.-based managers, and the other provision would change the tax treatment of “dividend equivalent” payments made on notional principal contracts (or “swaps”) that reference U.S. stocks. The proposed legislation, which was introduced by Senator Carl Levin (D.-Mich.) and Representative Lloyd Doggett (D.-Tex.), contains various other provisions, including the addition of certain reporting requirements, as well as certain presumptions to be applied in judicial and administrative proceedings, with respect to amounts derived by U.S. persons from offshore entities.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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