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Association News

June 24th IVCA Breakfast Event – Highlights of ‘Back to the Future: Strategies in a Rising Tax Environment’ with Blackman Kallick's Mark J. Blumenthal

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CHICAGO – Despite the early hour, the latest IVCA breakfast event covering federal and state tax changes was very well attended. Mark J. Blumenthal, Partner at Blackman Kallick, LLP, spoke on the hot button topic of the current evolution of tax rates and legislation. His ‘Strategies in a Rising Tax Environment’ presented key up-to-the-minute information on the changing nature of the tax code for 2010, geared toward the membership of the IVCA.

Mr. Blumenthal focused on some key modifications to the tax laws at both the federal and state level. He stressed that both levels of government were looking for new revenue, and were considering legislation that could result in higher taxes on several types of income streams. His strategies involved achieving what he called “tax equilibrium.” Below are the highlights of his talk.

On Tax Equilibrium...

“It's finding your equilibrium where you are not under-reacting or overreacting to taxes. Find your sweet spot, where you are thinking about taxes in a rational and reasonable way. Simply understand that taxes are a drag on your investment returns. And as you have investors in your fund, and you are thinking about the return to your investors in that fund, you should be thinking about it in an after-tax, after-fee basis.”

On Future Tax Laws...

“The hardest thing for all of us right now is making business decisions today based on current law, when we know that current law will not be the law in effect when we dispose of a particular investment, or even when we receive income along the way, how it's going to be taxed.”

On Capital Gains Tax...

“15% is the lowest Capital Gains Rate in history, and I'm going to go out here on a limb, but you are never, ever see a long term Capital Gains Rate than 15%...that party is over.”

On ‘The Opportunity Triangle’...

“The stars have aligned and there are three points to the triangle:

- 15% long term capital gain.
- the lowest interest rates in history...in terms of interfamily loans.
- depressed and/or bizarre valuations of public and private securities.

What does this mean? It means it's the wild, wild west. If you're not buying, selling, gifting...doing something with your assets, you're going to look back in this point in time...you will have blown it. The opportunities...on both the income tax side and the wealth transfer side all lie in 2010, and 2010 is quickly closing.”

On Carried Interest...

“What is likely to happen? As it exists today the House bill and everything we're hearing out of the Senate, the effective date for [a change] in Carried Interest is 2011. 2010 is going to be a window of opportunity, if the Carried Interest is passed.”

On Illinois Angel Investment Credit...

“Income tax credit equal to 25% in a qualified new business venture. This is great news...hopefully it will result in some more investments in Illinois growth companies.”

On the AMT (Alternative Minimum Tax)..

“80% of wealthy family office investors...the kind of folks you want in your funds...they are in the AMT. You need to be thinking about that as you're structuring transactions.”

“If you are in AMT, you are in a 28% tax bracket, that's a good thing. 28% is good for tax rates, 40% is bad. AMT can be your friend.”

The Crystal Ball...

“There is no estate tax today. Nobody believed that would be sitting here in the middle of June without an inheritance tax.”

“As it relates to taxes, we've all got to start following politics more closely than we want to.”

“Watch the discussion surrounding the VAT (Value Added Tax). It wouldn't surprise me in the next couple years we get the VAT tax. If anyone tells you the VAT tax will replace the income tax, take your shoe off and throw it at them.”

On federal and state revenue deficits...“It doesn't matter what side of the political aisle you're on, we're broke and we need money.”

“The IRS...are auditing investment partnerships as never before.”

“Taxes are going up, no matter what you want to say taxes are going up, and they need to be part of every business decision.”