

Anchin Alert

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Connecticut Bill Seeking 19% State Surcharge on Hedge Funds Has a Twist

Bruce McGuire, president of the Connecticut Hedge Fund Association, was attending the Managed Funds Association annual meeting earlier this year in Miami when he started chatting with some of his colleagues about the potential impact of recently proposed legislation in Connecticut that would slap a 19 percent surcharge on hedge funds based in the Nutmeg State.

If the bill becomes law “you will see a mass exodus” among hedge funds in Connecticut, said McGuire, managing partner of Global Alpha Research LLC, an advisor and placement agent to alternative investment managers.

There are roughly 450 hedge funds based in Connecticut, McGuire said, adding that Florida is aggressively recruiting hedge-fund managers based in Connecticut to relocate there.

The Connecticut bill, which was introduced in late January, would impose a new 19 percent state surcharge on investment management services fees, better known as carried interest.

State Rep. Robyn Porter, a Democrat and lead sponsor of the bill, told *The Wall Street Journal* the legislation could raise more than \$500 million annually as the state tries to close a looming budget deficit of \$1.5 billion.

Lawmakers in Massachusetts, New Jersey and New York have introduced similar legislation regarding hedge funds in recent years, but none have passed, the *Journal* said.

Indeed, the legislation in Connecticut, co-sponsored by 35 state senators, is contingent on similar laws being passed in Massachusetts, New Jersey and New York preventing Connecticut-based hedge funds from fleeing to neighboring states to set up shop.

Because the Connecticut bill is tied to proposed legislation in those other states, McGuire put its chances of passage as unlikely. “There are too many moving parts and not enough support in the statehouse or from [Connecticut Gov. Dannel P. Malloy],” he said.

At the same time, McGuire is telling his constituents in the business to exercise caution. “This proposal still needs to be taken seriously,” he said. “My fear is that they may take the initial draft [of the legislation], which doesn’t have a lot of support, tweak it and get the support. It has the potential to be rewritten.”

For more information, contact your Anchin relationship partner or Jeffrey I. Rosenthal, Partner-in-Charge of Anchin’s Financial Services Practice at 212.840.3456.

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