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## The Upcoming Elections: What's at Stake for Private Equity

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# Today's Presenters



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# Outline

- Why You Should Care
- The Fiscal Cliff
- Lame Duck Session – What Congress Will and Will Not Do
- Overview of 2012 Elections
  - Presidential
  - Senate
  - House
- Implications for 2013
  - Corporate Tax Reform
  - Dodd-Frank Implementation
  - Budget
  - Debt Ceiling
  - Additional Legislation





# Why You Should Care

Senators and Members of Congress consistently outperform the stock market

On average, the Members of the House beat the market by about 6% a year; Senators outperform the market by 10% annually

Investment advisers, particularly private capital investors, need to keep abreast of what is happening in Washington, DC



# The Fiscal Cliff

What is the “Fiscal Cliff?”

- Automatic Expiration of Tax Benefits
  - 2001 and 2003 Bush tax cuts
  - Payroll tax cut
  - Lower rates on capital gains, dividends and partial expensing of investment properties
- Automatic Spending Cuts From Sequestration
  - Enacted due to failure of Super Committee
  - \$1.2 trillion in spending cuts over 10 years
  - \$500 billion in cuts to defense spending
  - \$500 billion in discretionary spending cuts (limited Social Security and Medicaid cuts)
  - Also have expiration of unemployment benefits



## The Fiscal Cliff (cont'd.)

- CBO predicted Congressional inaction would probably cause recession
  - 1.3% contraction in first half of 2013
- Due to a crowded Lame Duck session, Congress may punt key issues to next Congress
  - Short-term extension of key items (tax cuts, unemployment insurance) in December is possible
- Next Congress will need to deal with several critical issues immediately after being sworn in
- Defense and government contractors are on Capitol Hill now, outlining the layoffs they are prepared to make if sequestration is implemented





# Lame Duck: Issues Congress Must Address

Issues Congress will address:

- Sequestration
- Tax Credits/Extenders
- Debt Ceiling





# Lame Duck: Issues Congress May Address

Issues Congress should address:

- Cybersecurity Bill
- Farm Bill
- Postal Reform





# Lame Duck: Issues Congress Probably Won't Address

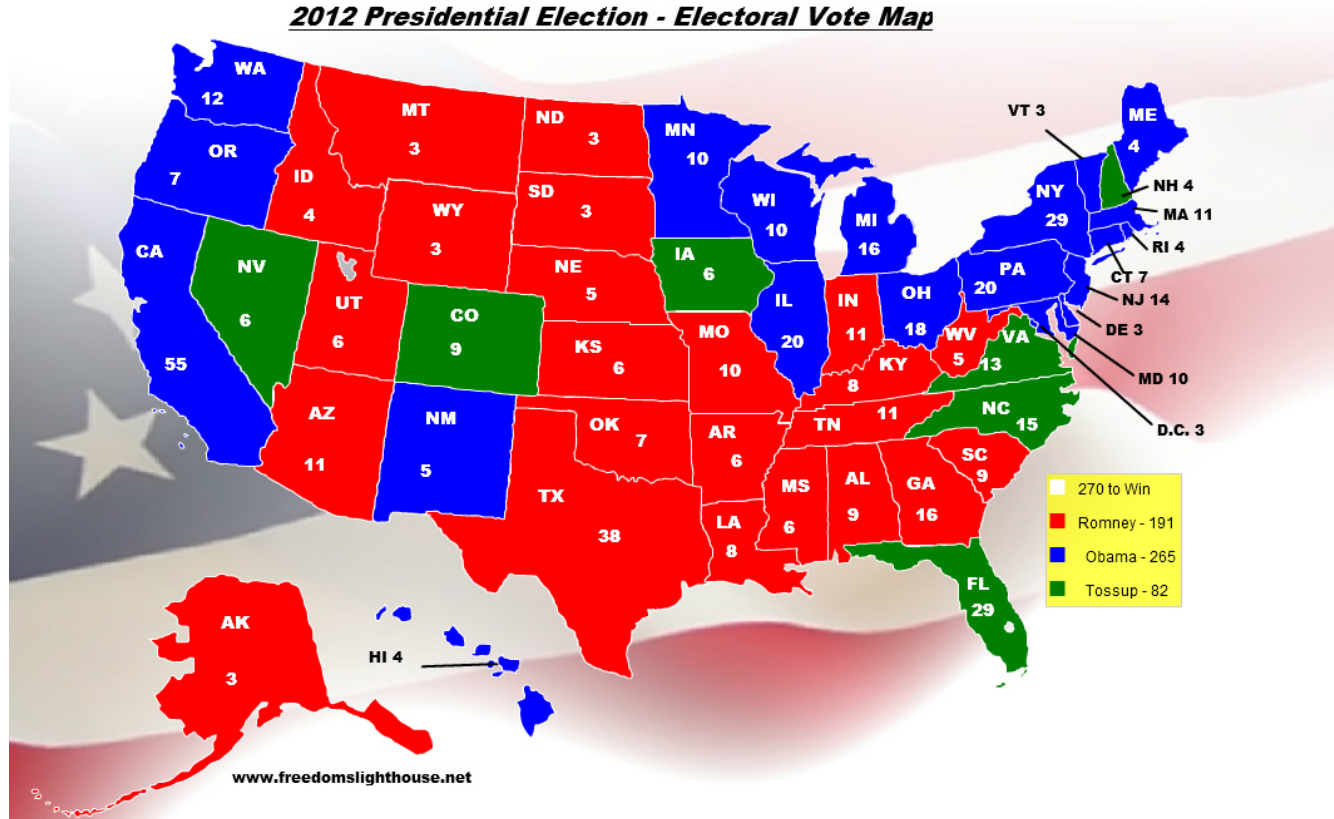
Issues which will be taken up in next Congress:

- Comprehensive Tax Reform
- Appropriations Bills
- Budget
- Multiple Debt Ceiling Votes
- Traditional Legislative Workload



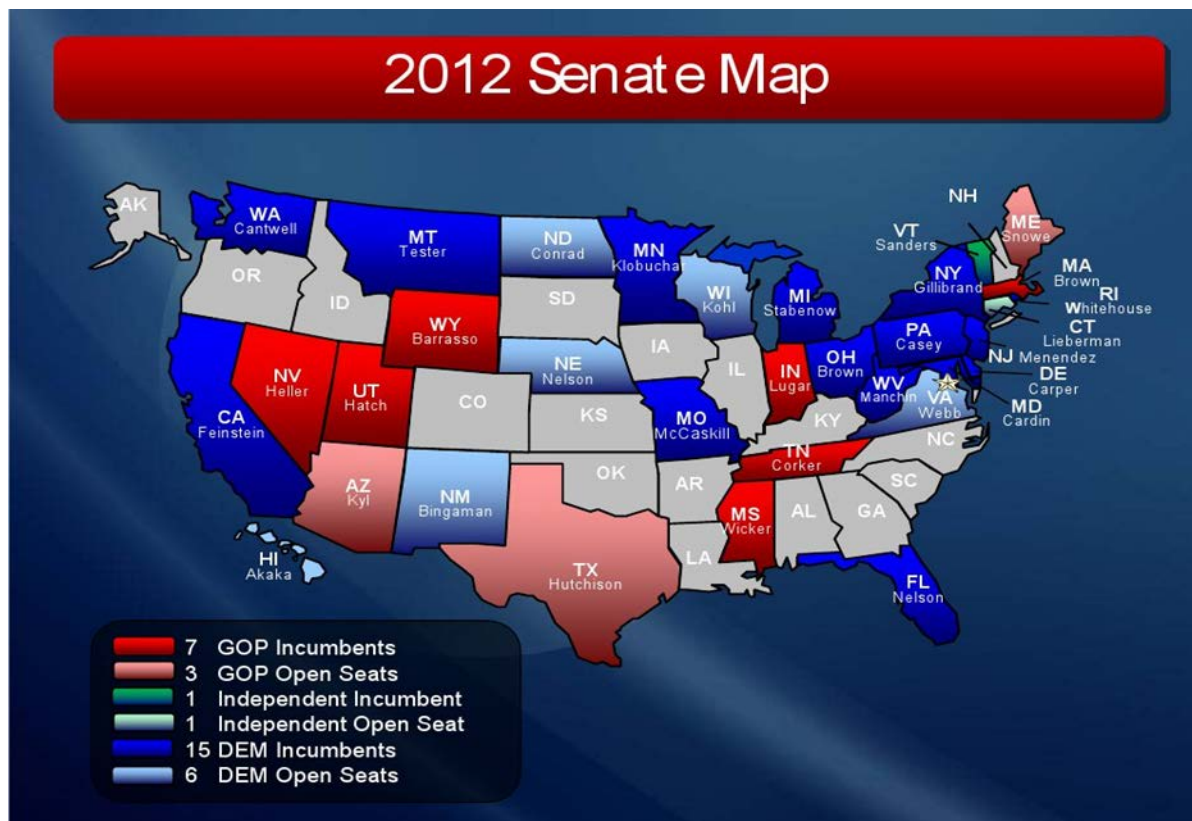


# Presidential Election – Electoral Map





# Competitive Senate Races





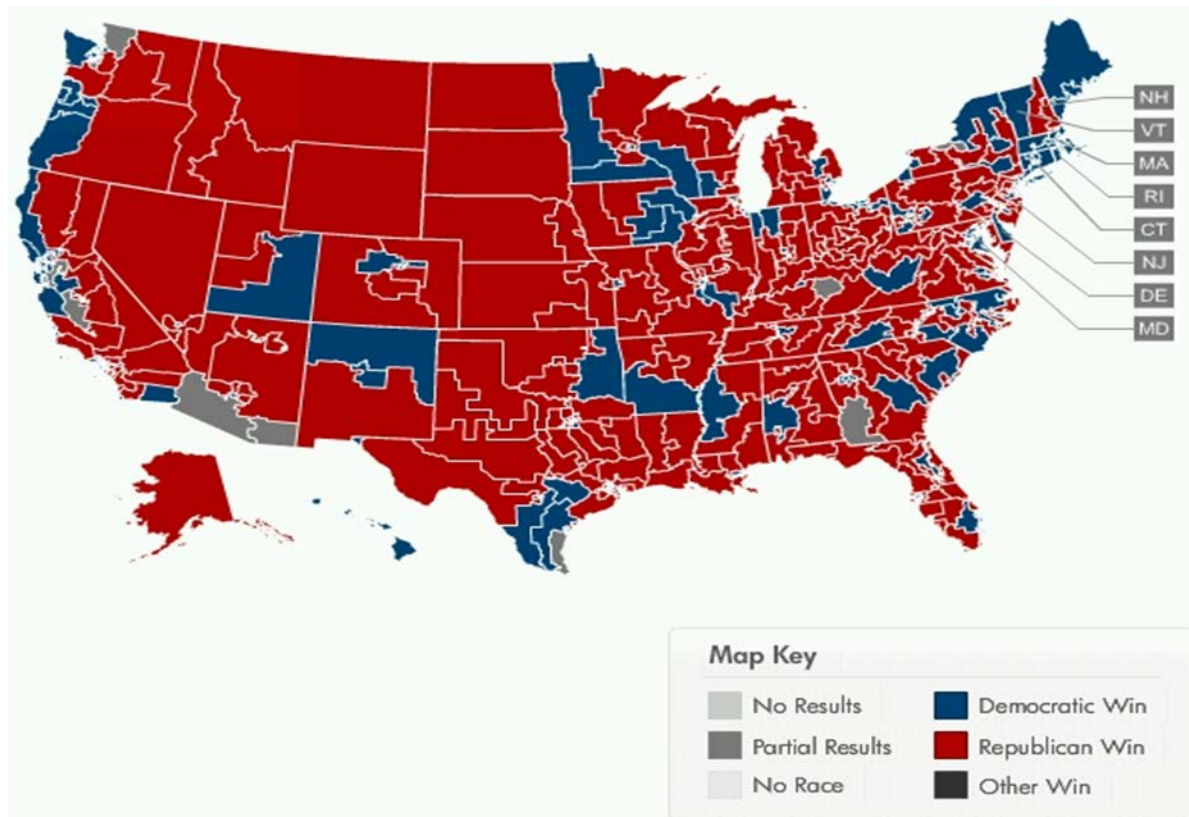
# Competitive Senate Races

- Connecticut
- Indiana
- Maine
- Massachusetts
- Missouri
- Montana
- Nevada
- North Dakota
- Ohio
- Virginia
- Wisconsin





# House of Representatives





# Legislative Outlook for the 113<sup>th</sup> Congress





# Corporate Tax Reform

Potential to lower corporate tax from 35% to high 20s% and in exchange, broaden base and close “loopholes”

■ Losers:

- Private fund advisers
  - Carried interest
  - Interest deductibility
  - Partnership taxation
- Energy
- Entertainment – Section 181
- Manufacturing
- Agriculture



■ Winners:

- Retail
- Transportation
- Finance





# Financial Services/Dodd-Frank Implementation







# Financial Services/Dodd-Frank Implementation

- Registration of PE Funds
  - H.R. 1082 (Hurt Bill)
- Implementation of Volker Rule
- Swaps and Derivatives
  - Position Limits – Disaggregation Proposal
  - End User Exemption for Margin
  - Inter-affiliate Swaps
- International Standards
- Systemically Important Financial Institutions
- JOBS Act Implementation
- Increase in SEC Enforcement Activity



# Budget Impact on Certain Key Sectors



Transportation



Oil and Gas/Clean Energy



Defense



# Debt Ceiling





# The Debt Ceiling

- U.S. Debt is currently \$16 trillion
- Debt Ceiling was increased to \$16.394 trillion in January; U.S. expected to hit the debt ceiling before end of the year
- Last year's debate resulted in significant instability:
  - S&P lowering rating of long-term federal debt from AAA to AA+ and its long-term credit outlook from stable to negative
  - Moody's warning it may downgrade U.S. credit rating
- Raising the Debt Ceiling requires approval of both Senate and House





# Legislative Outlook – “Lightning Round”

- Comprehensive Tax Reform
- Cybersecurity
- Data Protection/Privacy
- Dodd-Frank Implementation
- Farm Bill
- GSE Reform
- Health Care Implementation
- Hydraulic Fracking
- Immigration Reform
- Internet Gaming
- Keystone XL Pipeline
- Mobile Apps/Payments
- National Infrastructure Bank
- Oil and Gas Permitting
- SEC/CFTC Funding
- Trade Agreements
- Transportation Reauthorization





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