



The Real Estate Roundtable

Preserving Business Property Tax Deductions

Tax Policy

Summary

As part of the budget reconciliation process and in order to finance a growing list of tax priorities, members of Congress have considered limitations on the federal tax deduction for state and local taxes paid by businesses ("Business SALT") as a source of new revenue. These restrictions could take several forms. A cap on the deductibility of business-related property taxes would have devastating consequences for commercial real estate values, rents, and the entire economy and financial system. The tax legislation passed by the House Ways and Means Committee in May does not limit the deductibility of state and local business-related property taxes.

RER has strongly urged Congress to preserve the deductibility of state and local business property taxes to avoid the detrimental impacts that would result from changing this policy.

Key Takeaways

- State and local property taxes represent, on average, **40 percent** of the operating costs of U.S. commercial real estate, a greater expense than utilities, maintenance, and insurance costs combined.
- Business-related property taxes are different from state and local income taxes. Property taxes are an **unavoidable expense**, an inescapable cost of operating any business. They are a cash outlay that is owed **regardless** of whether the business has any income at all.
- [Analysis](#) by the Tax Foundation indicates that disallowing corporate SALT deductions for corporate income and property taxes would reduce GDP and American incomes by 0.6 percent and reduce hours worked by 147,000 full-time equivalent jobs.

Background

2017 Tax Cuts and Jobs Act (TCJA)

- The TCJA imposed a \$10,000 cap on the deductibility of state and local income and property taxes paid by individuals.
- The bill retained the deductibility of state and local business taxes, including property taxes on business property (property used in a trade or business, or property held for investment), state corporate income taxes, and state income taxes paid at the entity-level (state pass-through "work around" regimes).
- Business SALT restrictions are considered a potential offset for individual SALT relief, an extension of already-expired business provisions (e.g., bonus depreciation), or a further reduction of the corporate rate.
- Advocates of limiting the deductibility of Business SALT offer two policy arguments.
 - Some suggest, as a matter of tax parity, that businesses should be treated the same as individuals.
 - Others argue that restricting the Business SALT deduction would put pressure on states to further lower their tax burden on job creators.

Recommendations

Preserve the Deductibility of Business SALT: Repealing the deductibility of state and local business property taxes would cause unimaginable damage to U.S. commercial real estate, local communities, and the broader economy and must be avoided.

- Eliminating or capping the Business SALT deduction could **raise effective tax rates to 1970s-era levels near 50 percent**, discouraging investment in housing, infrastructure, and economic development projects nationwide.
- This would **reverse** the benefits of the TCJA and Section 199A, in effect **raising business owners' property tax bills by roughly 40 percent** and causing employers to owe federal tax on money that they do



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not have.

- Real estate values would fall as investors rush to exit the market, and banks and other lending institutions would face increased negative pressure.
- Foreclosures, insolvencies, and massive layoffs would result, and new investment would dry up.
- Changing deductibility of Business SALT would **hit lower-rent housing the hardest**, drive up operating costs, and deter construction at a time when housing affordability is already at a crisis point.
 - The cost will be passed through to tenants as landlords are forced to raise rents. Lower-income renters will be hit the hardest because property taxes are a larger percentage of the total cost for these properties.
 - In addition to stalling housing development and eroding property values, repealing Business SALT deductions would undercut local tax bases that fund schools, fire departments, and more. These public services and others would suffer as local tax revenue declines.