

An aerial photograph of a dense urban skyline, likely New York City, featuring numerous skyscrapers and buildings. The image is overlaid with a semi-transparent blue filter. A prominent white diagonal line runs from the top-left corner towards the bottom-right, bisecting the scene. In the bottom-left corner, the number '5' is displayed in white, with a short white horizontal line positioned directly beneath it.

5

Tax Policy

RER focuses on maintaining a competitive U.S. tax code that encourages capital formation, rewards entrepreneurial risk-taking, and supports jobs and communities.

The last 12 months were a pivotal period for real estate tax policy as lawmakers drafted, debated, and passed a massive tax bill to extend the 2017 Tax Cuts and Jobs Act (TCJA). As the process unfolded, RER worked closely with policymakers and stakeholders across the industry to achieve a positive outcome on every major real estate-related tax issue that arose during development of budget reconciliation legislation.

The final One Big Beautiful Bill (OB BB) Act signed into law on July 4, 2025, reflects the culmination of months and years of research, education, and advocacy by RER on tax provisions important to U.S. real estate.

OB BB avoids tax changes that could have severely disrupted real estate investment and includes Roundtable-backed provisions that strengthen communities, expand housing opportunities, and support long-term economic growth. The legislation preserves tax parity for pass-through businesses, and will help revitalize neighborhoods and create jobs.

RER advocacy efforts over the last year emphasized the importance of longstanding tax rules related to the deductibility of state and local taxes paid by businesses (“Business SALT”), capital gains, interest deductibility, like-kind exchanges, carried interest, partnerships and REITs, foreign investment, access to foreign capital, and more.

Our external research and analysis, the gathering and synthesis of credible data from industry leaders, close collaboration with our partners, and continuous engagement with members of Congress and the administration laid the foundation for success on a range of tax issues considered in the reconciliation debate. The final bill permanently expands the low-income housing tax credit (LIHTC), permanently extends 100 percent bonus depreciation and favorable business interest rules, and permanently extends the Opportunity Zones tax incentives. It also permanently extends the 20 percent deduction for pass-through business income and modifies tax accounting rules to promote condominium housing development.

Going forward, RER will continue advocating for industry priorities that encourage capital formation and rational taxation of real estate, strong and healthy communities, and productive investment that supports jobs and broad-based economic growth.

Preserving Business Property Tax Deductions

Preserving the current tax treatment of state and local business property taxes emerged as a top priority of RER when elimination of the deduction was included on a list of potential revenue offsets developed by the House Budget Committee.

With its passage in 2017, 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 (“Business SALT”), including 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).

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.

Eliminating or capping this deduction could raise effective tax rates to 1970s-era levels near 50 percent, discouraging investment in housing, infrastructure, and economic development projects nationwide.

In March 2025, RER issued a [call to action](#), encouraging RER members to engage with their representatives and amplify our message about the damage that a cap on deductibility would have on commercial real estate owners, developers, and investors nationwide. RER members and staff met with lawmakers, and 17 national real estate organizations [wrote to](#) members of the House Ways & Means and Senate Finance Committees, urging them to oppose any proposal that would cap or eliminate the deductibility of state and local business property taxes.

The final OBBB Act did not include any new limits on the deductibility of state and local business property taxes.

Pass-Through Business Taxation

Real estate is generally owned through “pass-through” entities—such as partnerships, limited liability companies (LLCs), S corporations, and REITs—that allow income to pass through to individual owners rather than be taxed at the entity level. These flexible structures facilitate

entrepreneurial activity that in turn drives job creation and economic growth. Half of the approximately 4 million partnerships in the U.S. are real estate partnerships, and real estate activity constitutes a large share of pass-through business activity.

The 2017 TCJA reduced the corporate tax rate by 40 percent and created a new 20 percent deduction (Section 199A) for pass-through business income to ensure that pass-through entities remain competitive with C corporations. Section 199A was set to expire at the end of 2025 and without congressional action, the effective marginal rate on pass-through business income would have risen significantly, from 29.6 percent to 39.6 percent.

This past fall, RER collaborated with a variety of small, medium, and large businesses to form the PROTECT Coalition and advocate for the preservation of our pass-through regime and extension of Section 199A. In January, RER joined other business groups in writing to lawmakers to express support for the *Main Street Tax Certainty Act of 2025*, and RER staff met with members of Congress throughout the winter and spring to discuss the importance of the provision.

The Section 199A deduction was permanently extended in the OBBB Act.

Estimated Employment, Income, and Output Effects of Real Estate Industry Partnerships and LLCs in the U.S.⁸

9,044,356 Workers Employed

\$896.8B Value Added

\$518.5B Labor Income

\$1,272.2B Output

Real estate partnerships have contributed to the employment of over **9 million workers, \$518 billion of labor income, and \$897 billion of value added to U.S. GDP.**

Nearly **2 million** U.S. partnerships with more than **8 million** partners are engaged in leasing and other real estate-related activities, such as brokerage and construction.

[Source: CRE By The Numbers](#)

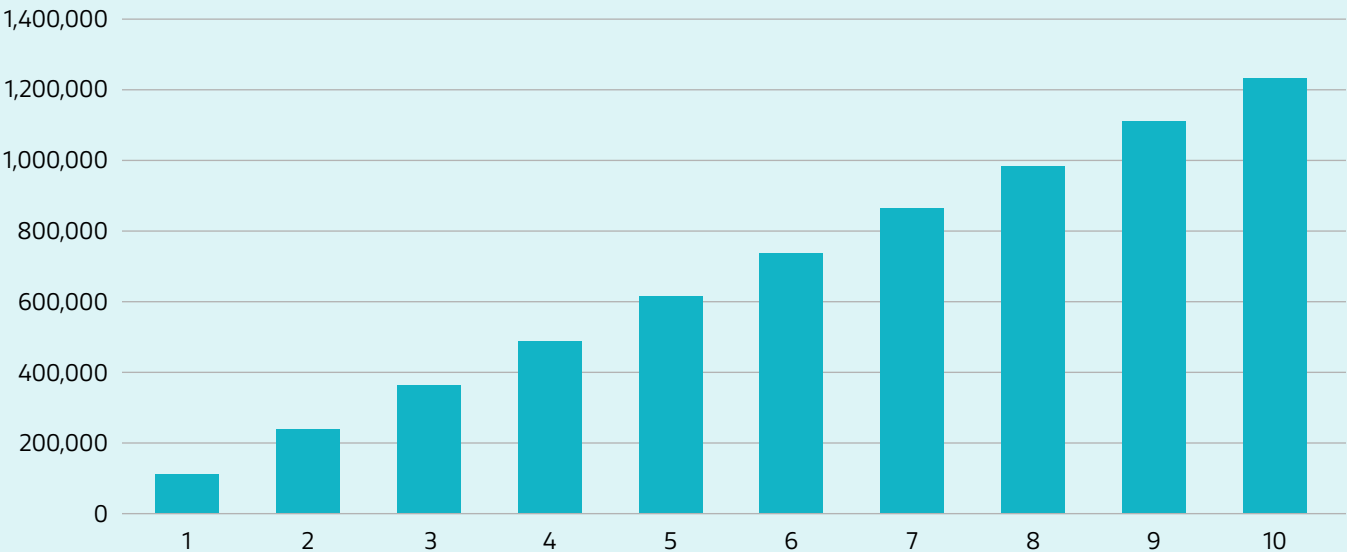
Carried Interest

A “carried” interest is the interest in partnership profits that a general partner receives from the investing partners for managing the investment and bearing the entrepreneurial risk of the venture. Carried interest may be taxed as ordinary income or capital gain, depending on the character of the income generated by the partnership. Carried interest is essential to real estate investment, supporting housing development, economic growth, and the modernization of U.S. infrastructure.

This spring, President Trump repeatedly urged congressional leaders to close the so-called “carried interest loophole” in the budget reconciliation bill. The main carried interest reform proposals would re-characterize all carried interest income as ordinary income.

In response, RER advocacy efforts emphasized the breadth and importance of carried interest in real estate markets. A new [study](#) released in April by USC Professor Charles Swenson drew on RER-provided data and estimated the economic damage that would result from increasing taxes on carried interest:

Changing the Tax Treatment of Carried Interest Capital Gains: Jobs Lost Over 10 Years⁹



\$70B Lost tax revenue over 10 years

1.23M American jobs lost over 10 years

Source: [Professor Charles Swenson, USC](#)

This spring, RER and 17 national real estate organizations delivered a [unified message](#) to congressional leadership, urging preservation of current law on carried interest. The RER-led letter noted that new restrictions on carried interest would raise taxes on 2.2 million real estate partnerships and nearly 9.7 million partners, potentially stalling new housing, infrastructure, and redevelopment projects.

The final OBBA Act did not include any changes to the tax treatment of carried interest.

Protecting and Promoting Foreign Investment in U.S. Real Estate

Foreign investment is a major source of capital for U.S. commercial real estate, leading to job creation, infrastructure development, and economic growth for communities throughout our nation. However, proposed legislation, new federal regulations, and a wave of state-level restrictions threaten to deter the deployment of global capital in U.S. assets.

Section 899

Initial versions of the budget reconciliation bill included a proposal—known as Section 899—that would have had severe negative consequences on real estate values, investments, economic activity, jobs, and local communities. In short, the measure would impose higher tax rates on entities that are tax residents of foreign countries deemed to have unfair taxes.

\$25B

Over the last four quarters (ending March 31, 2025), offshore capital sources have accounted for more than \$25 billion of investment volume (roughly 5.6 percent of total U.S. volume).

\$8B

In 2024, foreign investors invested nearly \$8 billion in multifamily housing.

\$4.5B

Over \$4.5 billion in foreign capital was invested in the struggling office sector, accounting for 7.1% of total office investment.

\$213B

Over the last five years, investment from overseas into U.S. CRE totaled more than \$213 billion.

Source: MSCI Real Assets; CBRE Research¹⁰

Sen. Todd Young (R-IN) focused on pro-growth tax policies, the need for reducing the deficit, and his initiatives aimed at housing supply and affordability during RER's Spring Roundtable Meeting.



Section 899 would apply to interest, dividends, and capital gains earned by investors—ranging from sovereign wealth funds and insurance companies to pension funds and high-net-worth individuals. In many cases, the U.S. Treasury Department would be responsible for determining whether a foreign country imposes unfair taxes, creating significant uncertainties, where individual tax rates could change from year to year or between administrations.

RER raised concerns about Section 899's potential to disincentivize passive foreign investments in U.S. real estate assets and engaged with policymakers to explain the provision's unintended consequences. This retaliatory tax regime could disrupt global capital flows and chill passive investment in U.S. real estate and infrastructure at a time when such investment is essential to market stability.

In many cases, the economic burden of Section 899 would fall on U.S. borrowers, rather than foreign investors, because borrowers frequently agree to bear the risk of changes in tax law. Also troubling is the potential retroactive application of the tax to income derived from investments made months or years earlier—undermining global confidence in U.S. property markets.

RER developed a broad-based coalition of real estate organizations to push back against Section 899 and joined other industries in an effort to exempt passive investment from the measure. While the provision was included in the House-passed bill and the initial Senate version, it was dropped from the final OBBA Act.

FIRPTA and State-Level Restrictions on Foreign Access

Under the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA), foreign investors are generally subject to U.S. capital gains tax on sales of U.S. real estate, unlike gains on other U.S. investments. However, an exemption exists for domestically controlled REITs, where less than 50 percent of the shares are held “directly or indirectly” by foreign persons.

In April 2024, the Treasury Department issued final regulations under FIRPTA that changed the previous interpretation of the phrase “directly or indirectly” and introduced a sweeping new “look-through” rule.

RER has opposed Treasury’s “look-through” rule as legally unsound, economically harmful, and inconsistent with congressional intent. In March 2025, RER submitted a [letter](#) urging Treasury to withdraw the regulation and restore a stable, predictable framework for foreign investment in U.S. real estate. As we have expressed, the new rule could significantly chill cross-border investment in U.S. REITs and

infrastructure projects and compound liquidity challenges at a time when more than \$1.5 trillion in commercial real estate debt is due to mature over the next three years.

At the state level, 20 states have enacted restrictions on foreign investors in real estate and agricultural land and eight states have considered similar measures.

Though these changes aim to safeguard national security, they risk discouraging essential foreign capital crucial for refinancing and sustaining U.S. commercial real estate markets, particularly given upcoming debt maturities.

RER continues to recommend a careful approach to state and federal policies that balances national security considerations with the need to avoid rules that may hinder foreign investment in U.S. real estate by legitimate enterprises and capital formation by law-abiding entities. The Trump administration has prioritized removing regulations that unnecessarily impede economic activity.



(L-R): RER Board Member Scott Rechler (Chairman & CEO, RXR) and U.S. Department of Commerce Sec. Howard Lutnick discussed trade policy, economic growth, and tariffs with Roundtable members.

Opportunity Zones

Opportunity Zones (OZs) are designated low-income census tracts where qualifying investments are eligible for reduced capital gains taxes. By channeling private capital where it is most needed and prioritized by states and local communities, OZs help stimulate job creation, generate economic opportunity, and improve the built environment in economically struggling communities. Since their enactment under the TCJA of 2017, OZs have made a tremendous impact:

In 2020, the White House Council of Economic Advisers estimated that the Opportunity Funds had raised

\$75B

in private capital in the first two years following the incentives' enactment, including

\$52B

that otherwise would not have been raised.¹¹

The council projected that this capital could lift

1M

people out of poverty, decreasing poverty in OZs by 11%.¹²

Despite major hurdles such as COVID-19 and high interest rates, more recent estimates suggest OZs have attracted over

\$120B

in capital.¹³

Today,

72%

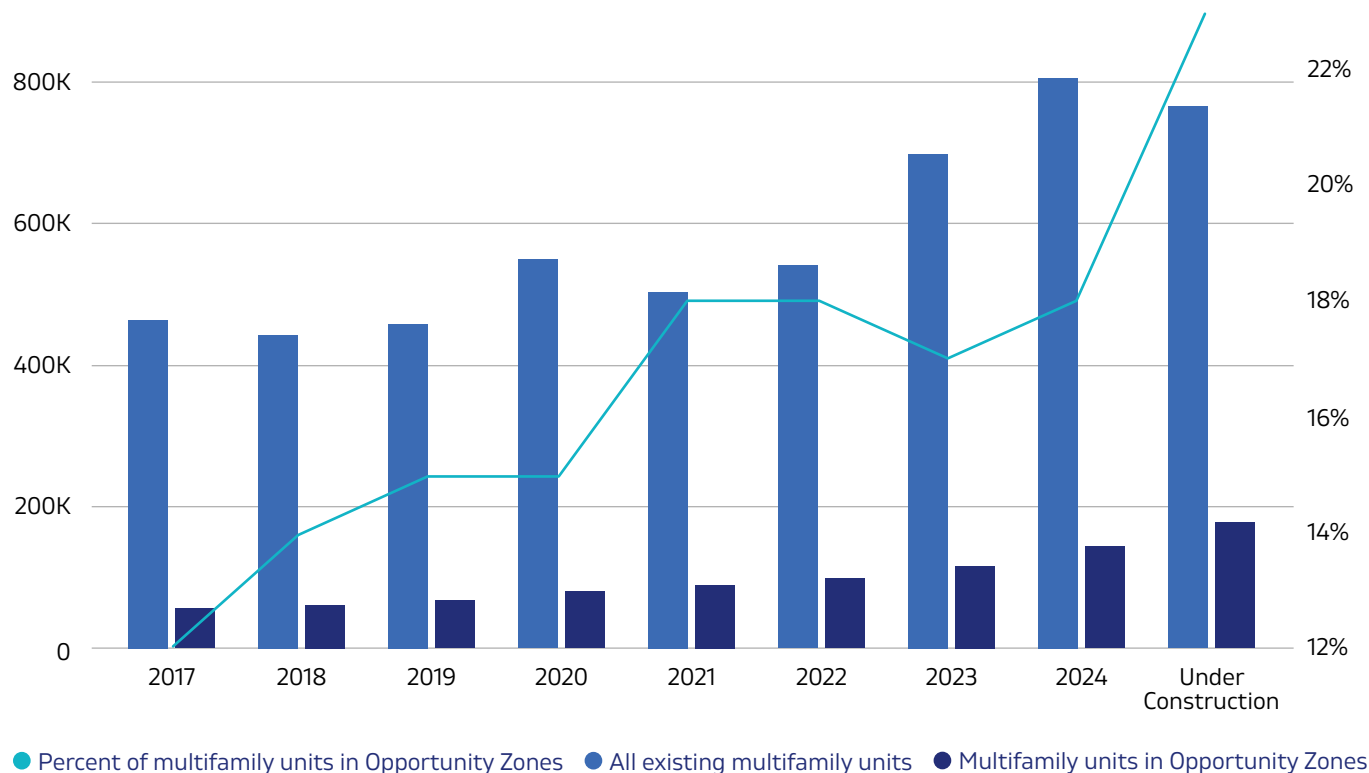
of U.S. counties contain at least one OZ, and 32 million people live in the 8,764 OZ-designated census tracts.¹⁴

RER members have played a leading role in putting Opportunity Funds to use, with projects across the country that demonstrate why Opportunity Funds are an economic multiplier. From Charleston, SC to Port Chester, NY, RER members have leveraged OZ funding to build multifamily housing, mixed-use developments, life science facilities, and more that contribute to job growth, GDP, and local, state, and federal government revenue.

For several years, RER has advocated for a long-term extension of the OZ incentives, as well as additional reforms to scale their impact and improve their effectiveness.

The OBBB Act permanently extends the OZ tax incentives, and beginning in 2027, provides a rolling, five-year deferral period for prior gain that is invested in an opportunity fund. The Act also provides for a re-designation of OZ census tracts by state governors every 10 years. It redefines low-income census tracts and establishes additional benefits for rural OZs, including a lower substantial improvement test for real estate projects, as well as transparency and reporting measures for all opportunity funds.

More New Multifamily Units Open in Opportunity Zones¹⁵



Source: CoStar

Capital Gains

The U.S. has traditionally taxed long-term capital gains at a lower rate than ordinary income. Maintaining a reduced tax rate on capital gains decreases the cost of capital, drives long-term investment, encourages productive entrepreneurial activity, draws investment from around the world, and increases U.S. workforce productivity and competitiveness.

Today, long-term capital gains are taxed at a top rate of 20 percent. This rises to 23.8 percent if the income is subject to the 3.8 percent tax on net investment income. The net investment income tax applies to real estate gains earned by passive investors and not income earned from the active conduct of professionals in real estate.

The last two Democratic administrations have proposed raising the capital gains rate to be on par with the top rate on ordinary income. Former President Biden also proposed increasing the tax rate on net investment income, applying it to active business owners (including real estate professionals), and taxing unrealized gains on a mark-to-market, annual basis.

These proposals represent a fundamental departure from current law and would have imposed sweeping changes on how real estate and other capital-intensive businesses are taxed.

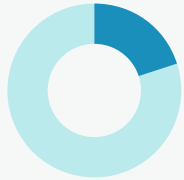
Maintaining the preferential rate on long-term capital gains and preserving the realization requirement are core tax principles supported by RER because they encourage patient capital and productive investment.



Sen. Tim Scott (R-SC), Chair of the Senate Banking, Housing, and Urban Affairs Committee, spoke on housing finance, capital access, and Opportunity Zones at the Fall Roundtable Meeting.

Like-Kind Exchanges

Like-kind exchange (LKE) rules under Section 1031 of the tax code allow taxpayers to defer capital gain when exchanging real property used in a trade or business for a property of a like kind. This long-standing provision, dating back to 1921, supports healthy real estate markets.



15-20% of commercial transactions involve an LKE.



Roughly 40% of exchanges involve rental housing, helping fill financing gaps in the development of affordable units.

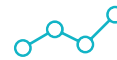
Unlike the Low-Income Housing Tax Credit, Section 1031 can be used to finance land acquisition, making it a complementary tool in addressing the nation's housing needs.¹⁶

LKEs lower the cost of capital, spur investment—particularly during times of market volatility—and help get languishing properties into the hands of new owners who can improve them and put them to their best use.

Ranking Member, House Ways and Means Committee Rep. Richard Neal (D-MA) engaged with Roundtable leaders on preserving tax incentives vital to CRE.



Research has found that LKEs:¹⁷



Increase net investment



Boost tax revenue



Stimulate capital expenditures leading to job growth



Reduce leverage and financial risk



Lower rents for households



Support healthy property values

[Source: CRE By The Numbers](#)

The last six budgets submitted by Democratic administrations have all proposed drastic restrictions on gains deferred through like-kind exchanges. Fortunately, these efforts have gained little traction on Capitol Hill. RER advocates for preserving the current tax treatment of like-kind exchanges, and will continue promoting the understated contribution of like-kind exchange rules to jobs and business growth, housing affordability, and the economic well-being of local communities.

Business Interest Deductibility

The deductibility of business interest is a longstanding provision in the U.S. tax system, and is particularly important for commercial real estate, where debt is a fundamental component of financing and a cost of doing business. In 2017, the TCJA introduced new limits on interest deductibility under Section 163(j), generally restricting deductions to 30 percent of a taxpayer's EBITDA (earnings before interest, tax, depreciation, and amortization). However, the bill also included a key provision that preserves the deductibility of business interest for commercial real estate (a real property trade or business).

Since 2022, the general 30 percent business interest limitation has applied a less favorable rule that uses the taxpayer's EBIT (earnings before interest and tax) rather than EBITDA as the base for measuring the amount of deductible interest.

RER participated in a multi-industry coalition effort in 2025 to restore the EBITDA rule that was previously in effect from 2018-2021 for calculating business interest deductibility.

The favorable EBITDA rule was restored and permanently extended in the OBBB Act. The extension will allow more real estate owners to utilize accelerated depreciation of leasehold and interior improvements.

Promoting Rational Cost Recovery Rules

RER has long supported rational cost recovery rules that reflect the real-world economics of commercial real estate investment. Chief among these is the principle that depreciation schedules for structures should align with the actual, useful lives of buildings. Depreciation rules for real property that closely match economic reality are vital for promoting capital formation, encouraging reinvestment, and ensuring a competitive U.S. tax code.

Research by the MIT Center for Real Estate and commissioned by RER previously found that the actual useful life of real estate is 20 years for nonresidential property and 18 years for residential property, much shorter than the current law schedules of 39 years and 27.5 years, respectively.

Separately, the OBBB Act includes an RER-supported provision reinstating 100 percent bonus depreciation for equipment, machinery, leasehold improvements, and interior improvements to nonresidential properties, such as shopping centers and office buildings. This accelerated cost recovery will provide a meaningful incentive to upgrade existing nonresidential properties.



Chair of the House Ways and Means Committee Jason Smith (R-MO) briefed RER members on the committee's tax package, highlighting the essential input provided by RER on key issues such as business SALT deductions, carried interest, and real estate's role in driving growth.