CARRIED INTEREST

- The Carried interest is not just a Wall Street/hedge fund issue. This tax hike will be felt by real estate developers and small business entrepreneurs in every corner of the country.

- There are 4.4 million partnerships in the United States and half of them are real estate partnerships. These 2.2 million real estate partnerships use carried interest to reward the general partner for taking risks that go beyond their cash investment.

- In real estate, carried interest is given in recognition of the risks the general partner takes. These risks can include funding predevelopment costs, guaranteeing construction budgets and financing, leasing the building, and exposure to potential litigation.

- The tax code has never and should never limit the reward for risk-taking to deep-pocketed taxpayers who have cash to invest. Carried interest creates a ladder of economic opportunity for cash-poor entrepreneurs to build successful and growing real estate businesses.

- Taxing all carried interest as ordinary income would make it more expensive to construct or improve real estate and infrastructure. It would raise housing costs by penalizing individuals who build housing. It would make it harder to clean-up environmentally damaged land or convert vacant buildings into new and useful spaces. It would discourage individuals from renovating and rehabilitating older, underutilized buildings. Communities would suffer as local tax revenue declines.

- Carried interest legislation would apply retroactively to partnership agreements executed years—often decades—earlier. These negotiated agreements between the partners were based on well-established tax law as it existed at the time. The unfair retroactive application of carried interest legislation to existing partnerships would distort the economics of private sector agreements with unknown and potentially damaging consequences for the overall economy and real estate markets.

BUSINESS SALT

- State and local property taxes represent 40% of the operating costs of U.S. commercial real estate. Property taxes are a greater expense than utilities, maintenance, and insurance costs combined.

- New limits on property taxes would create unnecessary economic risks and come at a time when real estate is already under tremendous pressure from high labor and construction costs, elevated interest rates, and new tariffs on key inputs like steel and lumber.

- Disallowing a deduction for property taxes would lower commercial property values and put increased pressure on banks and other lending institutions. It would drive investors to exit, create unnecessary stress in the banking system, and discourage new construction and development.

- In some cases, disallowing a deduction for property taxes would require businesses to pay income tax when their actual income and cash flow is negative. It would push them into insolvency and force foreclosures and layoffs.

- For many businesses – and especially real estate – limiting the deductibility of property taxes would completely reverse the benefits of the TCJA rate structure and Section 199A. It would raise effective tax rates on real estate income to 1970s-era levels near 50% and greater.

- Denying the deductibility of property taxes for businesses will raise housing costs and trigger inflation. The additional cost will be passed through to tenants as landlords are forced to raise rents. Lower-income renters will be hardest hit because property taxes are a larger percentage of the total cost for these properties.