

AVOID NEW TAX HIKES ON AMERICA'S REAL ESTATE

March 26, 2025

Dear Chairmen Smith and Crapo and Ranking Members Neal and Wyden:

The undersigned organizations, representing all sectors of commercial real estate, urge you to preserve investment in real estate by maintaining longstanding tax law as it relates to carried interest and capital gains. Carried interest is a crucial tool driving American real estate investment, spurring housing development, and promoting the growth of our built environment. Retaining capital gains tax treatment for carried interest helps ensure our nation can meet the goals of increasing housing supply, modernizing our building stock, and contributing to economic growth.

Proposals to tax all carried interest as ordinary income would result in an enormous tax hike on the 2.2 million real estate partnerships and 9.7 million real estate partners across the country who develop, own, and operate income-producing real estate. This, in turn, would result in the creation of fewer residential units at a time when many more are critically needed.

Many partnerships in all types of businesses, including real estate, reward the general partner with the promise of a “profits interest” in the event the venture is ultimately successful. The tax law appropriately treats this interest as a capital gain to reflect the risks the general partner has taken — equity capital, assumption of business risk, or old-fashioned sweat equity. Reward for these latter forms of risk is “carried interest.”

Carried interest is not compensation for services. In real estate, fees for routine services like leasing and property management are appropriately taxed at ordinary tax rates. Carried interest is granted for the value the general partner adds to the venture *beyond* routine services, such as business acumen, experience, and relationships. It is also recognition of the risks the general partner takes with respect to the general partnership's liabilities. These risks can include funding predevelopment costs, guaranteeing construction budgets and financing, and exposure to potential litigation over countless possibilities.

The tax code has never, and should never, limit the reward for risk-taking to taxpayers who have cash to invest. An entrepreneur who forgoes the security of a salary to invest time and effort into starting a business that may or may not succeed should qualify for capital gains treatment the same way that a passive investor qualifies when they put their cash into a public stock or private venture.

Carried interest legislation would raise taxes on real estate partnerships of all sizes, including arrangements as simple as two friends who come together to purchase, fix up, and lease a single-family home to supplement their income. If one of the partners contributes capital and the other sweat equity, there is no justification for denying either partner capital gains treatment on a successful venture. The tax increase would fall on small- and mid-sized real estate entrepreneurs who are unable to make large capital contributions to their projects but instead contribute hard work and effort.

In short, by taxing the sweat equity of partners, this new tax on entrepreneurs would reduce economic opportunity and mobility, and it runs counter to the American tradition of rewarding private enterprise and risk taking.

The economic damage of such a change would be immense. Past research has concluded carried interest legislation would reduce wages, lower property values, and undermine economic growth.¹ Taxing all carried interest as ordinary income would make it more expensive to construct or improve real estate and infrastructure. It would penalize individuals who build housing at a time during which we have an immense shortage of housing and affordable and workforce housing in particular, clean-up environmentally damaged land, and 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.

Projects that involve a higher level of economic and market risk—new affordable housing, or commercial projects in long-neglected and capital-starved neighborhoods—could be passed up in favor of projects with greater certainty but less potential upside.

Moreover, 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. By changing the tax results years later, the proposals would undermine the predictability of the tax system and discourage the long-term, patient investment that moves our economy forward.

Lastly, in 2017, Congress carefully reviewed and analyzed the tax treatment of carried interest and enacted thoughtful and well-designed reforms. At this point, additional changes represent a solution in search of a problem.

For all of these reasons, we urge you to preserve current tax law as it relates to carried interest. If you or your staff would like more information, please do not hesitate to contact Cindy Chetti with the National Multifamily Housing Council (cchetti@nmhc.org, PH: 202-974-2300).

Sincerely,

National Multifamily Housing Council
American Hotel and Lodging Association
American Resort Development Association
American Seniors Housing Association
CCIM Institute
Council for Affordable and Rural Housing
ICSC
Institute of Real Estate Management
Latino Hotel Association
Manufactured Housing Institute
Mortgage Bankers Association
NAIOP, the Commercial Real Estate Development Association
National Apartment Association

¹ Center for Capital Markets Competitiveness, [Impact on Jobs, Tax Revenue, and Economic Growth of Proposed Tax Increase on Carried Interest](#) (Sept. 2021); Douglas Holtz-Eakin, Cameron McCosh, and Gordon Gray, [The Tax Treatment of Carried Interest](#) (June, 2017). See also Kevin Hassett and Alan Viard, [The Tax Hike on Carried Interest](#) (June 2010).

National Association of Black Hotel Owners, Operators, and Developers
National Association of Home Builders
NATIONAL ASSOCIATION OF REALTORS®
The Real Estate Roundtable