

Sweat Equity to be Taxed Under Carried Interest Bill

by PR-NewsWire

WASHINGTON, Sept. 6 /PRNewswire-USNewswire/ -- As Congress returns this week to debate and conduct hearings on H.R. 2834, a bill to raise the tax rate on an interest in partnership profits known as a "carried interest," The Real Estate Roundtable (www.rer.org) will seek to educate policymakers about the bill's unintended and damaging consequences. The bill would tax this interest in the partnership as ordinary income (35% tax rate), even if the partnership produces capital gain (15% tax rate).

"This proposal is a tax increase on those who take on entrepreneurial risk and devote sweat equity to create or own investment real estate," said Roundtable President and CEO Jeffrey D. DeBoer. "Eliminating capital gain treatment for real estate carried interests is bad for this crucial sector of the American economy."

Over \$1 trillion in equity is invested in real estate by private investors, with that investment leveraged on average by another \$300 billion- \$400 billion. The bulk of this capital is invested through partnerships that employ carried interests.

Later today, DLC Management Corporation Co-Founder and President Adam Ifshin will testify on behalf of The Roundtable, the International Council of Shopping Centers and other major real estate trade organizations before the House Ways and Means Committee about the unintended consequences of H.R. 2834 on real estate. Ifshin, whose company revitalizes and creates retail shopping centers in historically neglected communities, says that without the return on investments provided by the capital gain treatment of carried interests, his company would not have been able to grow the way it has. Additionally, future projects could be limited or could fail to get off the ground entirely.

"There is the perception that this is targeted at the largest investors, but, in fact, entrepreneurs and small businesses of all types would foot the bill," said Ifshin. "This bill presents a barrier to entry for those of us who bring the ideas, the know-how, and the effort to those with money to invest. Development and redevelopment in many communities would suffer, no question about it," he concluded.

DeBoer outlined other unintended consequences policymakers should consider before enacting this legislation. Specifically, he warned that the bill would: -- **STIFLE JOB GROWTH.** Development is the most risky type of real estate

activity. If the willingness to take on development risk is discouraged by higher taxes, some development will simply not happen.

This would have a significant negative impact on construction workers, who are among the earliest and most direct beneficiaries of real estate development. In short, H.R. 2834 threatens their jobs.

-- **LOWER PROPERTY VALUES AND HARM LOCAL BUDGETS.** Increasing the tax on real estate investment will cause fewer transactions to go forward.

Less demand will cause values to decline, in turn reducing the property tax base that local governments rely on to run schools and provide government services.

-- **ENCOURAGE MORE DEBT.** The bill would encourage real estate owners to borrow more money to avoid taking on equity partners. Favoring debt over equity is not sound economic policy, especially given the current credit crisis.

"A tax increase like this will hurt the economy at a time when credit and development are already under real stress," DeBoer concluded. "As Congress learns more about how this proposed policy change would work, we are confident they will better understand the bill's unintended consequences."

The Roundtable brings together chief executives from top U.S. real estate entities and leaders of real estate industry trade associations to develop broad-based positions on big-picture policy issues relating to real estate and the national economy. Collectively, its members' portfolios contain over 5 billion square feet of office, retail and industrial properties valued at more than \$700 billion; over 1.5 million apartment units; and in excess of 300,000 hotel rooms. Participating trade associations represent more than 1 million people involved

in virtually every aspect of the real estate business.

Source: Real Estate Roundtable

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