

Carried Interest: What They're Saying

Congress this week is set to vote on more than doubling taxes on real estate, venture and private equity investment partnerships that provide much needed capital to American businesses and entrepreneurs. Because this unprecedented tax hike would slow the flow of capital to businesses that drive economic growth and job creation, it is opposed by a broad cross section of critics. America's mayors, real estate experts, commercial property developers, home builders, members of the minority investment community and others, including political figures of both parties, agree: We should not raise taxes on investment.

"This is a sea change in the way real estate is taxed. This tax increase could not come at a worse time. A 150 percent tax increase on carried interest will create more difficulties in the struggling real estate sector and dramatically delay economic recovery. This is not a hedge fund tax increase. It is the largest tax increase on real estate, ever."

- Real Estate Roundtable President and CEO Jeffrey DeBoer

"While many believe the carried interest tax proposal was created to provide tax equity between average workers and private equity and hedge fund managers, it will disproportionately impact the commercial and multi-family real estate industry by slowing much needed capital improvements to revitalize America's underserved minority communities. These communities, in particular, rely heavily on private development and risk taking to bring about transformational change to uplift communities across the county."

- The United States Conference of Mayors

"If you raise the tax rate on venture capital it means there will be less money to invest at a time when the economy is still recovering. I think it's important to have as much money in the private sector to invest as we can."

- Senator Jeanne Shaheen (D-NH)

"Here's what will happen if this bill becomes law: Real estate values will be depressed immediately, transaction volume will drop. Risk will get riskier and certain projects our members once may have undertaken will no longer make economic sense."

- Betsy Laird, Senior Vice president of the International Council of Shopping Centers

"The construction industry already is strained by job loss, with unemployment at 21.8 percent. Adding new taxes to an already burdened industry is not conducive to expedient economic recovery.....Minimizing the tax burden on American citizens – and the construction industry in particular – to help increase the rate of capital formation, economic growth and job creation is a priority..."

- Associated Builders and Contractors, Inc

“At this time of great market uncertainty, now is not the time to upend more than 50 years of partnership tax law characterizing carried interest as a capital gain. This punitive, 157 percent tax hike on growth investment by real estate, venture, private equity and other firms will hurt those companies that are most desperately in need of capital to sustain or create jobs and drive growth.”

- Douglas Lowenstein, President of The Private Equity Council

“While this tax increase is represented as narrowly tailored to penalize wealthy hedge fund executives, the scope of this proposal would be far broader, directly or indirectly impacting more than 15.5 million partners invested in 2.5 million partnerships. The partnership structure is widely employed by various sectors of the economy, including real estate, venture capital, private equity, and retail. The proposed changes would have far-reaching impacts on capital formation and investment flows.”

- U.S. Chamber of Commerce

“The proposal ... will be a significant disincentive to take the kind of entrepreneurial risks that have been the hallmark of our industry. By dampening the motivation of real estate developers to undertake new deals, we will put a drag on one of the few robust job-creating sectors in the economy.”

- International Council of Shopping Centers member Lee H. Wagman (CityView)

“The provision in HR 4213 to tax 75 percent of venture capital carried interest at ordinary income rates and 25 percent at capital gains rates will more than double the taxes that long term investors pay when they build successful companies and create jobs. ... it by no means creates enough of a differential to continue to encourage long term investment in America’s start up companies.”

- Mark Heesen, President of the National Venture Capital Association

“Minority-owned, operated and focused investment partnerships pour crucial capital into blighted areas where many of the bigger funds don’t want to go because they don’t possess the relationships or know how to navigate the landscape. If we raise taxes on these investors, businesses in these communities that need access to capital will suffer – and our nation’s economic recovery and long-term economic growth will stagnate.”

- Robert Johnson, founder of Black Entertainment Television and principal of RLJ Equities

“The proposal will make borderline development transactions, such as those in underserved communities that typically carry a higher risk for success, significantly less attractive. ... Ultimately, this will result in reduced access for housing, less job creation, and lower community development, especially in underserved areas.”

- National Association of Home Builders Senior Vice President of Government Affairs Joe Stanton

“[T]he real risk is on the younger generation of private equity professionals. If they find other pursuits more financially appealing (hedge funds, anyone?), the losses to company formation and job growth won't show up right away. But show up they will, 5 to 10 years from now when the best and the brightest would have been hitting their stride. And the entrepreneurs will then have trouble finding savvy investors, and that will be a real, material loss of jobs and industrial competitiveness in this country.”

- Gerry Langelier of OVP Venture Partners

“Critically, the first businesses that will lose access to equity capital are younger or marginal firms that may be on the brink of failure. To help small businesses, new government lending programs and credit subsidies are not necessary if private equity capital is available in private markets.”

- US Senate Republican Policy Committee

“...the treatment of carried interests should not be changed. Under current law, private equity sponsors are treated the same way they would be treated if they engaged in the activity directly rather than through a partnership. There are sound reasons, many deeply embedded in partnership tax law, for retaining this approach.”

- David L. Weisbach, Walter J. Blum Professor and Kearney Director, Program in Law and Economics, The University of Chicago Law School.

“Changing the current capital gains treatment of carried interest would undermine job creation and have a negative impact on commercial real estate values, which would devastate local property tax revenues and put pension fund investments at risk. Just as importantly, such a policy would slow the national economic recovery.”

- Institute of Real Estate Management senior legislative liaison Vijay Yadlapati

“...the bill would:

- Hurt real estate partnership large and small....
- Further erode property values and tax revenues at the local level – requiring deeper cuts in essential public services such as police and fire protection, education and health care.
- Jeopardize pension fund investments in real estate partnership, which would put at risk the retirement savings of millions of ordinary Americans.
- Further deepen the liquidity and refinancing crisis in commercial real estate.”

Joint letter signed by:

- **American Hotel & Lodging Association**
- **American Resort Development Association**
- **American Seniors Housing Association**
- **Building Owners and Managers Association International**
- **CRE Financial Council**
- **Council for Affordable and Rural Housing**
- **International Council of Shopping Centers**
- **NAIOP, The Commercial Real estate Development Association**

- ***The National Apartment Association***
- ***National Association of Homebuilders***
- ***National Association of Real Estate Investment Managers***
- ***National Multi-Housing Council***
- ***The Real Estate Roundtable***