June 24, 2008

Dear Member of Congress:

On Wednesday June 25th, the House will be debating and voting on H.R. 6225 the AMT relief bill. We acknowledge the importance of this legislation. However, we are dismayed that the Ways & Means Committee in reporting out the bill chose to include the carried interest tax proposal as part of the AMT relief package. The carried interest proposal would increase the tax on a partnership carried interest by 150 percent. With the real estate and credit markets teetering on recession, this tax increase would deal a particularly damaging blow at the worst possible time.

Entrepreneurs are facing their most serious challenges in over a decade as credit markets are convulsing and in some cases, such as the commercial mortgage backed securities, completely seizing up. The loss of wealth in the economy is still being tallied. Financial institutions and related companies are reporting record losses – often several times greater than forecasted.

The credit crisis and the concomitant plummeting of asset values have led to an unnerving downward spiral. The effects have spilled into many sectors of the economy including the commercial real estate sector.

The carried interest tax proposal would magnify the current economic troubles by first and foremost cutting the after-tax return of entrepreneurs – a disincentive to economic risk taking.

Because the proposal punishes general partners for aligning with equity investors, they will be pushed to substitute that equity with debt to avoid having to use a carried interest arrangement. Encouraging more and riskier debt is bad policy in general and especially bad given how over-leveraged the economy is. Transactions are already difficult to complete and this will make it harder (some won't even begin), hurting job formation and reducing revenue for local budgets.

Entrepreneurial initiative has created trillions of dollars worth of wealth, millions of jobs and shaped cities and communities across the country. The carried interest structure allows entrepreneurs to match their expertise and risk assumption with a financial partner and align the parties' economic interests so that entrepreneurial risk taking is viable. Current taxation should be preserved.

The following are some key facts you should know about the real estate industry and carried interests.

- There are over 2.5 million total partnerships of all types in the US, managing $13.6 trillion dollars in assets, and generating income of roughly $450 billion.

- Real estate accounts for 46 percent of these partnerships and roughly $1.3 trillion in equity investment.

- There are over 1.2 million real estate partnerships made up of 6.6 million partners.

- The economy-wide lost economic income from distorting taxes on real estate partnership capital would be $15 to $20 billion annually, and as much as 10 to 25 times greater once the detrimental impact on entrepreneurial talent is incorporated.

- Workers would bear the impact of higher taxes in the form of reduced jobs in real estate and lower earnings overall.

Again, we urge that the carried interest tax proposal not be included as part of the AMT package.

American Hotel & Lodging Association
American Land Title Association
American Resort Development Association
American Senior Housing Association
Appraisal Institute
Building Owners and Managers Association International
Certified Commercial Investment Member Institute
Commercial Mortgage Securities Association
Institute of Real Estate Management
International Council of Shopping Centers
Manufactured Housing Institute
The Mortgage Bankers Association
National Apartment Association
National Multi Housing Council
National Association of Industrial and Office Properties
National Association of Real Estate Investment Managers
The Real Estate Roundtable