LION PROPERTIES LLC

Writer's direct dial (303) 444-7279
Writer's email LH@lionprop.com

April 11, 2013

Dear Working Group,

47% of the partnerships with carried interest are in real estate. The vast majority are small, single property partnerships. Changes to the carried interest tax are justified by the idea that general partners do not risk their own capital so their labor should be taxed like everyone else's. This is a powerful argument that I agree with. This argument is simply not applicable to single property real estate partnerships.

Prior to the formation of a single property real estate partnership the person who later becomes the general partner must risk significant capital to fund all the front end costs, legal, earnest money, engineering, etc. If the due diligence and partnership formation processes are successful then the general partner is refunded this capital, upon the partnership becoming active, and at that point the general partner has no capital in the partnership. If at any point in the process there is a problem in the deal, of which there could be many, the general partner loses the capital that was at risk. The only reward the general partner has for this risked capital is their carried interest. As an example, if there is $250,000 in non-refundable earnest money and $75,000 in legal fees and the general partner is not successful in selling the minimum amount of limited partnership units to break escrow, the general partner is out all that money. We can easily prove we have risked capital as we have cancelled checks, but whom else but the general partner could lose the front end capital, as there are no limited partners at that stage of the deal. The whole discussion about carried interest is based on the idea that a pool of capital is formed and then risks are taken, a blind pool. That is not the way it works for small single property real estate deals. In order to invest capital the limited partners want to know the details of the specific property, which requires having the property under contract for purchase, and the due diligence done.

At the very least, all the capital that the general partner risked prior to partnership formation should be included in the calculation of how much capital the general partner invested that is the basis of a legitimate capital gain. This capital bears much greater risk than the limited partner's capital and should be valued accordingly. Alternatively it would be more appropriate to just exclude this type of partnership from any changes. Not grandfathering old deals done over ten years ago seems very unfair to me.

On behalf of 100,000s of small businesses in real estate please provide something that is fair for these partnerships.

Sincerely,

Leonard Hortick

1650 38th ST. SUITE 104W BOULDER CO 80301 TEL. 303-444-7400 FAX 303-444-7489

1650 38th ST. SUITE 104W BOULDER CO 80301 TEL. 303-444-7400 FAX 303-444-7489