

National Association of Home Builders

1201 15th Street NW
Washington, DC 20005

T 800 368 5242
F 202 266 8400

www.nahb.org



May 21, 2010

The Honorable Nancy Pelosi
Speaker
United States House of Representatives
Washington, DC 20515

Dear Speaker Pelosi:

On behalf of the 175,000 members of the National Association of Home Builders (NAHB), I am writing to share our concern about the use of "carried interest" as the central revenue offset for H.R. 4213, the American Jobs and Closing Tax Loopholes Act of 2010 (Tax Extenders Legislation). We strongly urge Congress to reconsider this proposed tax increase, as it would have a significant negative impact on real estate development.

The largest revenue raising provision of H.R. 4213 is the increase of tax on carried interest income, from the capital gains rate and character to a blended rate and character (for two years 50% capital gains, 50% ordinary income, and from 2013 to 75% ordinary income, 25% capital gains). While this proposal is supposed to target perceived abuses on Wall Street, let me debunk this myth. This tax increase will not just affect hedge funds and private equity funds, but will generate significant harm for real estate development, including multifamily housing. In reality, much of this tax increase would fall upon real estate. While hedge and private equity funds will reprice, restructure, or move overseas, thousands of real estate construction jobs will be lost.

The proposal will make borderline development transactions, such as those in underserved-communities that typically carry a higher risk for success, significantly less attractive. As well, it affects the pricing of development transactions which, in turn, have negative implications on capital flowing to real estate development. Ultimately, this will result in reduced access for housing, less job creation, and lower community development, especially in underserved areas.

NAHB estimates that the economic impact of taxing carried interest as 100 percent ordinary income would be a loss of 33,000 jobs due to reduced multifamily rental housing construction and \$1.2 billion in reduced annual property tax revenues to state and local governments. The current proposal before Congress would enact a blended rate, reducing the negative economic impact somewhat. This is, however, little consolation to the tens of thousands of workers who will still lose their jobs.

One side effect of increasing the tax on carried interest for real estate is to transfer property tax revenue from state and local governments to the federal government. At a time when state and local governments are deciding between deep spending cuts or tax increases, Congress is set to exacerbate the financial crisis facing many states and cities across the country by enacting a policy that would reduce property tax collections.

NAHB urges Congress to reconsider the proposed tax increase on carried interest. Increasing the tax on carried interest in the real estate sector will result in lost jobs and reduced property tax revenues for state and local governments. While NAHB strongly supports numerous provisions in H.R. 4213, we oppose the use of carried interest as the revenue offset for this legislation because of its impacts on real estate development, especially in underserved communities.

Thank you for considering our views.

Best regards,

A handwritten signature in black ink, appearing to read "J. Stanton". The signature is fluid and cursive, with the first letter being a large, stylized "J".

Joe Stanton
Senior Vice President
Government Affairs