CARRIED INTEREST

Also called a "promote," carried interest has been a fundamental part of real estate investment partnerships for decades. Managing partners receive a carried interest, or a share of profits once an asset is sold, in recognition of both the value they bring to the venture and the risks they take. In addition to their management expertise, managing partners assume responsibility for recourse debt, litigation, and cost overruns, among other risks.

NMHC/NAA Viewpoint

NMHC/NAA believe that carried interest should be treated as a long-term capital gain if the underlying asset is held for at least one year. The industry strongly opposed extending the holding period to three years as part of tax reform legislation enacted in 2017 but notes that final regulations released in January 2021 exclude Section 1231 gains from the extended holding period.

Carried interest should receive capital gains tax treatment because it represents a return on an underlying, long-term capital asset, as well as risk and entrepreneurial activity. This is in contrast to any fees that managing partners receive in payment for operations and management activities, which are taxed as ordinary income.

Current tax law treats carried interest as a long-term capital gain if the underlying asset is held for at least three years. NMHC and NAA strongly opposed extending the one-year hold period to three years as part of tax reform legislation enacted in 2017 but notes that final regulations released in January 2021 exclude Section 1231 gains from the extended holding period. The multifamily industry believes a one-year holding period is the appropriate tax treatment of carried interest.

Real estate companies account for 50.7 percent of all partnerships.

This country is facing a housing affordability problem stemming from a lack of supply. Taxing carried interest at ordinary income rates regardless of how long an asset is held would disincentivize real estate investment and the goals of increasing housing supply and lowering housing costs. Indeed, an April 2025 research study by Charles W. Swenson of the University of Southern California Marshall School of Business finds that taxing carried interest at ordinary income rates would lead to "a downsizing of the real estate industry, which builds affordable housing," while leading to industry job losses totaling 560,000 and annual net Federal tax revenue losses of $2.92 billion.

The bottom line is that a higher tax rate on carried interest will discourage real estate partnerships from investing in new construction at a time when demand for apartments continues to grow and chronic underbuilding has limited new housing supply. NMHC and NAA research shows that the nation will need to build 4.3 million new apartment homes by 2035. Congress must avoid enacting tax policy that would make it more difficult to construct those units.