NATIONAL MULTIFAMILY HOUSING COUNCIL
NATIONAL APARTMENT ASSOCIATION

TAX RATES & 20-PERCENT PASS-THROUGH DEDUCTION

NMHC/NAA Viewpoint
Congress should maintain the tax rate reductions and the 20-percent qualified business income tax deduction made permanent as part of 2025 tax legislation. Failure to do so could result in a substantial tax increase on the pass-through entities that dominate the multifamily industry and exacerbate the nation's housing affordability crisis.

The multifamily industry is dominated by "pass-through" entities (e.g., sole proprietorships, LLCs, partnerships and S corporations) instead of publicly held corporations (e.g., C corporations). Indeed, approximately three-quarters of apartment units are owned by pass-through entities. This means that a company's taxable income is passed through to the equity owners, who pay taxes on their share of the income on their individual tax returns, regardless of whether the owner receives any cash distribution of the income or it is reinvested in the business. Additionally, a significant number of industry participants are organized as REITs that generally pay no tax at the entity level and pass-through dividends to shareholders.

The tax treatment of pass-through entities contrasts with the taxation of large publicly held corporations, so-called C corporations, which generally face two levels of tax. These entities are subject to a 21 percent tax rate at the corporate level under the corporate tax system. Taxable shareholders are then taxed upon the receipt of dividend income. Notably, some shareholders of corporate stock, including retirement accounts generally and non-profit organizations, are exempt from taxes on those dividends.

In 2025, Congress made permanent reduced taxes on pass-through entities and REITs by:

- Reducing marginal individual tax rates, including the top tax rate to 37 percent from 39.6 percent; and
- Providing a 20-percent tax deduction for qualifying pass-through income and REIT dividends (commonly referred to as Section 199A), effectively reducing the top tax rate on qualifying business income to 29.6 percent.

Pass-through entities (e.g., sole proprietorships, LLCs, partnerships, and S corporations) dominate the multifamily industry. Indeed, approximately three-quarters of apartment units are owned by pass-through entities.

Congress should continue to promote the use of flow-through entities and investment in multifamily housing by retaining the tax rate reductions and the 20-percent qualified pass-through income deduction made permanent in 2025 tax legislation. Failure to maintain today's tax laws could result in a substantial tax increase and further exacerbate the nation's housing challenges.

Housing affordability is a significant challenge facing many American families. The U.S. needs to build 4.3 million more apartments by 2035 to meet the demand for rental housing. This includes 600,000 units (total apartments) to fill the shortage from underbuilding after the 2008 financial crisis. Increasing taxes will leave far less capital available to help fill this gap.