November 17, 2011

The Honorable John A. Boehner
Speaker
United States House of Representatives
Capitol Building, H-232
Washington, DC 20515-6501

The Honorable Nancy Pelosi
Democratic Leader
United States House of Representatives
Capitol Building, H-204
Washington, DC 20515-6537

The Honorable Harry Reid
Majority Leader
United States Senate
Capitol Building, S-221
Washington, DC 20510-7020

The Honorable Mitch McConnell
Republican Leader
United States Senate
Capitol Building, S-230
Washington, DC 20510-7010

The Honorable Patty Murray
Co-Chair
Joint Select Committee on Deficit Reduction
448 Russell Senate Office Building
Washington, DC 20510-4704

The Honorable Jeb Hensarling
Co-Chair
Joint Select Committee on Deficit Reduction
129 Cannon House Office Building
Washington, DC 20515-4305

Dear Leaders:

On behalf of thousands of firms that invest in American businesses, we write to share our concern about proposals that would inhibit investment at the very time that private capital is so critically needed to spur economic growth. We are united in opposition to proposals to increase taxes on carried interest and urge you to oppose their adoption.

Like many other business industries, the real estate community is navigating through uncertain and unprecedented times. Historically, when real estate markets are healthy and in balance, they are a significant positive contributor to the U.S. economy — generating or supporting some 9 million jobs, roughly one-quarter of GDP and over two thirds of local government tax revenue. Thus, we encourage public policies that reflect the complexity of real estate's role in the American economy, and that minimize unintended negative consequences for this important sector.

Private equity firms invest in more than 14,200 U.S.-based businesses that collectively employ more than 8 million workers. Middle-market investments (transactions valued at less than $1 billion) account for nearly 90 percent of all private equity activity conducted in the U.S. during the first half of 2011. These investments have provided critical capital to small and mid-sized businesses during the recession - capital often available nowhere else.

As you weigh various policy changes, we urge you to oppose efforts to increase taxes on carried interest. Carried interest is a profits share that partners in private equity, real estate, venture capital and other types of businesses receive on the capital gains from long-term investments in capital assets. Unlike a salary, carried interest income is not guaranteed, often takes many years to vest, can be clawed back if subsequent investments are not successful and is dependent on the increased value of the investment. Carried interest serves as an important incentive to encourage prudent investing. That is why Congress has taxed carried interest as a long-term capital gain for over 60 years. Carried interest is not a loophole, but an incentive that aligns and focuses investor efforts to grow companies over the long run.

The proposal to increase taxes on carried interest would also tax the enterprise value of those partnerships at ordinary rates. This would deny those who spent many years building their businesses long-term capital gains rates if the business is eventually sold in whole or in part. In short, under this proposal, investment partnerships would be the only form of business in America subject to this discriminatory treatment. The enterprise value tax increase has faced bipartisan opposition in the past and is inextricably linked to the larger carried interest proposal that would only further undermine our economic recovery.

Along with enterprise value, another problem with the carried interest proposal concerns family partnerships. Families invest together throughout the U.S. in partnerships for many ventures. The carried interest proposal would treat any partnership in which one partner loans money to another, or they jointly guarantee bank loans, as being subject to the carried interest rules. This is even though no carried interest exists whatsoever.

At a time when we should be encouraging long-term investment to create and grow companies, more than doubling tax rates on carried interest and enterprise value would discourage further investment. To the extent that policy makers would like to debate appropriate tax rates on long-term capital gains, including carried interest and enterprise value, that is a topic more appropriately discussed within the context of fundamental tax reform.

We urge you and all of the Members of the Joint Select Committee on Deficit Reduction to support private capital investment in growing companies. Reject this misguided carried interest and enterprise value tax increase as both Houses of Congress have done on several occasions in the past five years.

Sincerely,

Steve Judge
Interim President & CEO
Private Equity Growth Capital Council

Jeffrey DeBoer
President & CEO
The Real Estate Roundtable

Gary A. LaBranche, CAE
President & CEO
Association for Corporate Growth

Karen Kerrigan
President & CEO
Small Business & Entrepreneurship Council