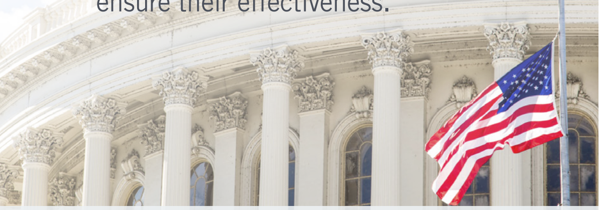
NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION

TAX POLICY

KEY POINTS

- The commercial real estate industry is a major contributor to our nation's long-term economic growth and an important source of job creation.
- Federal tax provisions should continue support for capital investment in long-term real estate assets and facilitate the efficient functioning of modern commercial real estate markets.
- A lower tax rate on capital gains income is needed to ensure investment in long-lived commercial real estate assets.
- In general, cost recovery and depreciation rules for structures and improvements should reflect their useful economic life.
- Limiting availability of tax deferral under Section 1031 for like-kind property exchanges would severely undermine modern commercial real estate markets, threatening their liquidity and resulting in reduced investment and transactions.
- Existing tax incentives that foster increased commercial real estate investment in underserved communities should be maintained and updated to ensure their effectiveness.



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OUR POSITION

Federal tax policy should align with the economics of real estate development and investment, promote capital formation, and support job creation and economic development. Lower capital gains tax rates are a critical factor in ensuring sufficient investment for longer-term, productive real estate assets. Cost recovery and depreciation rules should reflect the useful economic life of structures and their component parts. Tax deferral for real estate like-kind exchanges should be maintained.

- Federal tax policy should recognize the long-term, capital-intensive nature of real estate assets, and the continued investment needed to maintain vibrant commercial real estate markets that lead to job creation and economic growth in our communities.
- A meaningful differential between capital and ordinary income rates, with capital rates being lower, should be maintained. Lower capital gains tax rates provide a reward for those who take the inherent risk in making long-term capital investments.
- Establishing a reasonable cost recovery period for leasehold improvements has long been a point of bipartisan agreement in Congress through annual extensions of temporary tax provisions. Shorter depreciation periods for Qualified Improvement Property (QIP) ultimately were made a permanent feature of the tax code.
- Permanency in the tax code provides certainty for investment decisions, reduces the after-tax cost of improvements, and increases long-term capital investment in structures that directly contributes to job creation.
- Congress has long recognized that gain should not be taxed when property held for trade or business use or for investment is exchanged for like-kind property, a principle embodied in Section 1031 of the tax code that should be continued. In commercial real estate, tax deferral under Section 1031 is particularly important because assets are long-lived and past depreciation increases the tax burden of transferring property, creating a lock-in effect.
- Tax policies that incentivize commercial real estate investment in underserved communities, including Opportunity Zones, the New Markets Tax Credit program and Historic Tax Credits, should be maintained as important tools for community revitalization and economic development. Congress should work to improve the effectiveness of these programs.