PRESERVE FULL DEDUCTIBILITY OF BUSINESS-RELATED PROPERTY TAXES

March 7, 2025

Dear Representative:

We write to express our strong opposition to any proposal that would cap or eliminate the ability of a business to claim a federal tax deduction for its state and local property tax payments.

Property taxes paid by businesses are fundamentally different from state and local individual income taxes. Property taxes are an unavoidable expense, an inescapable cost of operating any business, large or small, public or private. Eliminating the business deduction for property taxes would be the equivalent of raising business owners' property tax bills by roughly 40 percent,[1] causing employers to owe federal tax on money that they do not have. It would lead to insolvencies and foreclosures, and it would cause self-inflicted injury to the U.S. economy, including unnecessary job losses, pressure on rents for families and individuals, and other inflationary cost increases for American consumers.

While all businesses would be negatively impacted, the potential harm to the real estate industry[2] would be almost too significant to imagine. State and local property taxes represent, on average, 40 percent of the operating expenses of U.S. commercial real estate businesses.[3] Property taxes are a greater expense than utilities, maintenance, and insurance costs combined.[4] These taxes are a cash outlay that reduces income. Disallowing a deduction for state and local property taxes would artificially inflate and misstate commercial real estate's taxable income. The tax implications would completely reverse the benefits of the TCJA rate structure and Section 199A, and would raise effective tax rates on real estate income to 1970s-era levels near 50% and greater. In some cases, it would require businesses to pay income tax when their actual income and cash flow is negative.

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[1] Commercial real estate is owned primarily in pass-through form by taxpayers subject to a top rate of 40.8% (37% + 3.8% NIIT). Restricting the deductibility of property taxes would increase their federal tax liability by $0.41 for every $1 of property tax owed.

[2] U.S. commercial real estate is valued at $18-22 trillion, employs over 15 million Americans and generates $2.3 trillion of the nation's annual GDP. Retirees, schools, and charities have invested nearly $1 trillion in the industry. *See* Real Estate Roundtable, *Commercial Real Estate by the Numbers* (2023).

[3] *2022 NCREIF Same-Store Operating Expenses* (Feb. 2025).

[4] *Id.*

In short, for many businesses, denying the deductibility of property taxes would replace the current federal income tax with a crude tax on a much larger base of business receipts. It would represent a dangerous step towards a new, economically destructive tax on gross business revenue. The tax increase would discourage new investment, deter the construction of much-needed housing, and disincentivize other long-term projects. Moreover, disallowing a deduction for property taxes would be expected to lower commercial property values substantially, placing increased negative pressure on banks and other lending institutions.

In addition, loss of the property tax deduction would raise pressure on rents and prices for working families and small businesses across the board.[5] Since property taxes represent a greater share of the total operating costs of lower-rent housing,[6] the impact would fall disproportionately on those who can least afford it. The proposal would also reduce the financial viability of housing construction, and make it harder to build and rehabilitate affordable housing.[7]

A tax increase of this scale could put the current economic expansion in peril and substantially increase the risk of a recession. Collectively, U.S. businesses paid $1.1 trillion in state and local business-related taxes in 2023 (including nearly $400 billion in property taxes).[8] Businesses generate 45 percent of state and local tax collections.[9] Property taxes alone represent over 70 percent of tax revenue collected by local governments.[10] These taxes are the principal source of funding for schools, police, fire and rescue, trash collection, water treatment, and other public services critical to everyday lives.

Rather than inducing a new wave of tax competition, restrictions on the deductibility of business-related property taxes will drive up employers' after-tax costs. The collateral damage will be American businesses and the people they employ. Not all capital is mobile, not all businesses can relocate to wherever state and local taxes are lowest. Office buildings, shopping centers, apartments, and hotels are fixed assets. Many other businesses need to be close to

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[5] Bill Wheaton¸ *Can Landlords Really Pass on Higher Property Taxes to Tenants?* MIT Center for Real Estate Insight (Oct. 5, 2018); Leah J. Tsoodle & Tracy M. Turner, *Property Taxes and Residential Rents*, Journal of Real Estate Economics (2008).

[6] Jack Goodman, *Houses, Apartments, and Property Tax Incidence*, Harvard Joint Center for Housing Studies (Feb. 2005) at 19.

[7] National Multifamily Housing Council, *Unequal Burdens: Exploring Effective Property Tax Variation and the Regressive Nature of Apartment Property Taxes* (Sept. 2024).

[8] Ernst & Young and the Council on State Taxation, Total State and Local Business Taxes: State-by-State Estimates for FY23 (Dec. 2024).

[9] *Id*. at 3.

[10] U.S. Census Bureau, *2022 State & Local Government Finance Historical Datasets and Tables* (Nov. 2024).

their customers and clients in order to serve them. The proposal will not spur these businesses to move, it will put them out of business.

For all of the reasons above, the undersigned real estate organizations urge you to reject any cap or limitation on the deductibility of state and local business-related property taxes. If you have questions or would like to discuss this matter further, please do not hesitate to contact Ryan McCormick with The Real Estate Roundtable (PH: 202-639-8400, rmccormick@rer.org).

Sincerely,

American Hotel & Lodging Association
American Resort Development Association
American Seniors Housing Association
CCIM Institute
Council for Affordable and Rural Housing
ICSC
Institute of Real Estate Management
Manufactured Housing Institute
Mortgage Bankers Association
NAIOP, the Commercial Real Estate Development Association
Nareit
National Apartment Association
National Association of Home Builders
National Association of Housing Cooperatives
NATIONAL ASSOCIATION OF REALTORS®
National Multifamily Housing Council
The Real Estate Roundtable