



## **CCIM INSTITUTE**

Experts in Commercial Investment Real Estate  
Affiliate of the National Association of REALTORS®

### **Carried Interest Statement of Policy**

Revised and Approved by the CCIM Institute Board of Directors – October 2007

### ***Carried Interest***

Most real estate partnerships, particularly those engaged in real estate development, are organized with general partners, who contribute their expertise (and, occasionally, some capital) and limited partners who contribute money and property (capital) to the enterprise. Generally the profits of the partnership are divided primarily among the limited partners who contribute capital. A common practice among real estate partnerships, however, is to permit the general partner to receive some of the profits through a "carried interest," even when the general partner has contributed little or no capital to the enterprise. The general partner's profits interest is "carried" with the property until it is sold.

During the time that the real estate is held, the general partner receives compensation in the form of ordinary income. The limited partners receive both ordinary income from operations and capital gains income from any profits generated during the year. When the property is sold, the limited partners receive their profits distributions (the earnings on the capital they have invested) as capital gains. The general partner also receives the value of its carried interest as capital gains income.

Congress has proposed treating the income from the carried interest as ordinary income. The bill would treat all income from a carried interest of a real estate partnership (and other types of investment partnerships, as well) as income from services, subject to ordinary income tax rates. Thus, the tax rate on income from a carried interest would increase from 15% to a maximum of 35%. No effective date has been proposed, leaving open the possibility that the rule could apply to existing partnerships and carried interests. By increasing the tax burden on these real estate partnerships, the proposal would make real estate a less attractive investment.

### **Position Statement**

CCIM Institute opposes any proposal that would eliminate capital gains treatment for any carried interest of a real estate partnership. (10/07)