APARTMENTS
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Business Interest Deductibility

Under current law, interest paid by businesses on their debt is fully deductible. However, concerns that firms might be overleveraging have led to questions on whether the current 100 percent deduction for business interest expenses should be curtailed. Such a change would have serious unintended negative consequences on the ability of the apartment industry, which relies heavily on the debt markets, to meet the nation's housing demand.

Over three-quarters of multifamily properties are owned by pass-through entities as opposed to stock-issuing corporations. Although these entities do raise equity capital from investors, they are largely reliant on the debt markets to finance new construction and/or property renovations as well as property operations. In fact, a typical multifamily deal is composed of 65 percent debt and 35 percent equity. On an overall basis, the Federal Reserve reports that as of September 30, 2013, total multifamily debt outstanding was $908.2 billion.

Reducing the deductibility of business interest would greatly increase the cost of debt financing. These higher costs will be expressed in one of two ways: either curbing development activity at a time when supply is falling well short of demand and/or possibly forcing an increase in rents for those properties that are built. In both cases, a tax law change such as this would make it more difficult for the multifamily industry to provide safe and decent housing to 36.4 million residents.

It is critical to note that full deductibility of business interest has been a fixture of the tax code for 100 years. Since its inception, the tax code has taxed net profits as opposed to gross receipts, and it has allowed for the deduction of ordinary and necessary business expenses. Business interest clearly falls into the category of an ordinary and necessary expense. Its tax treatment should not be changed.

NMHC/NAA VIEWPOINT

Congress should maintain the full deductibility of business interest. Curtailing the deduction will increase the cost of borrowing, which will curb apartment construction at a time when the nation faces a 5.3 million-unit shortage of rental units.

THE APARTMENT INDUSTRY RELIES ON DEBT TO CONSTRUCT NEW APARTMENT PROPERTIES AND TO UPGRADE EXISTING PROPERTIES.