TAX REFORM

OUR POSITION

ICSC supports tax reform that is focused on growing the economy in communities across the country, spurring investment and new development. We have concerns about the direct and indirect economic impact of certain previous tax reform proposals, including elimination of like-kind exchanges, treatment of depreciation, business interest deduction and energy efficiency tax incentives.

A typical retail real estate company is organized as a pass-through entity or as a Real Estate Investment Trust (REIT). Some in our industry are concerned that we will not directly benefit from lower corporate tax rates, but will carry the burden of helping to finance the cost of rate reduction. This could materially and disproportionately harm real estate, the valuation of underlying assets, cash flow and capital formation, the institutions that are invested in retail real estate and the economy as a whole.

- **Based on the aftermath of the 1986 Tax Act, tax reform that is not carefully considered can have disastrous consequences for individuals, institutions and the economy as a whole.**
- **Proposed changes would increase the rate on straight-line depreciation recapture by over 58%.**
- **In 2011, leasehold improvement outlays of more than $15.5 billion added nearly $45 billion to the U.S. economy, and supported nearly 342,000 jobs.**
- **Limiting interest deductibility reduces long-run economic growth by $33 billion.**

LIKE-KIND EXCHANGE: Previous tax reform discussion drafts have proposed elimination of Section 1031 like-kind exchange treatment for real property. The current like-kind exchange rules should be maintained for real property as they promote the efficient use of capital and cash flow by allowing taxpayers to shift to more productive like-kind property, change geographic location, diversify or consolidate holdings, or otherwise transition to meet changes in business needs. Furthermore, a study conducted by Ernst and Young exhibits that elimination of Section 1031 would against the stated goal of encouraging growth.

STRAIGHT-LINE DEPRECIATION: Previous tax reform discussion drafts have proposed extended depreciation lives considerably longer than the usable life for most commercial real estate, as a recent MIT/PwC report shows. The longer depreciation periods would result in higher capital costs for building owners, creating disincentives to upgrade and modernize the space for their tenants. ICSC applauds Congress for enacting a permanent 15-year depreciation schedule for tenant, restaurant and retail space to reflect consumers' expectations and government regulations.

BUSINESS INTEREST DEDUCTION: Various tax reform proposals have suggested limiting or eliminating the ability to deduct the interest associated with business related debt. The use of debt instruments allows for more efficient deployment of capital and is important to maintaining a balanced finance structure for the industry. The proposed changes would disproportionately impact our industry and move our tax system to something similar to a gross receipts tax or VAT.

ENERGY EFFICIENCY: Instead of total repeal, as proposed by previous discussion drafts, Section 179D should be revised with more effective rules encouraging the energy efficiency of buildings, such as providing for a sliding scale that would increase the amount of the incentive for retrofits with greater energy savings.

CAPITAL CONTRIBUTION BY A NON-SHAREHOLDER (SECTION 118): State and local economic development incentives, especially those funded by state and local taxes, should be exempt from federal income taxes. It is inappropriate for the federal government to claim 35% of the value of tax increment and other financing provided to encourage economic development in a community.

ICSC looks forward to engaging with the tax-writing committees on how U.S. tax policy can truly provide growth and continued investment in America's communities.

For more information contact Jennifer Platt at jplatt@icsc.org or 202-626-1404.

HOW DO SHOPPING CENTERS IMPACT OUR ECONOMY?

ICSC

SHOPPING CENTERS ARE MAJOR EMPLOYERS

1 out of every 11 U.S jobs is shopping center-related (12.7 million).

SHOPPING CENTER JOBS ARE MORE THAN JUST RETAIL

Nearly 20% of shopping center tenants are non-retail (e.g. health care, logistics, education) and over 44% of retail occupations are unrelated to sales. Many of these jobs pay wages well above the national average.

SHOPPING CENTERS ARE A CRITICAL REVENUE SOURCE FOR COMMUNITIES

- Local Property Taxes: $25.7 billion annually.
- State Sales Taxes: $147.2 billion annually.

SHOPPING CENTERS DRIVE U.S. GDP

Two-thirds of the $17.7 trillion U.S. GDP comes from consumer spending on goods and services.

SHOPPING CENTERS ARE BIG BUSINESS

ICSC members represent 12% of the Fortune 100. Retail is the largest employer in more than half the states in the U.S.

SHOPPING CENTERS ARE SMALL BUSINESS

88% of U.S. shopping centers are neighborhood/community centers. Almost half of these are occupied by locally-owned businesses.

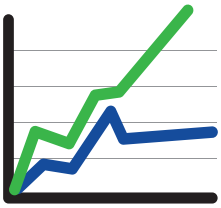
SHOPPING CENTERS ARE VALUABLE U.S. ASSETS

The current value of shopping center real estate in the U.S. is $1.3 trillion.

RETAIL INVESTMENTS OUTPERFORM U.S. MARKET INDICES

Over the last 5 years:

- S&P 500 rose by 106.4%
- Local Retail REIT Index rose by 149.9%
- Regional Retail REIT Index rose by 227.8%
- 1/4 of of all REITs are shopping center-related.



SHOPPING CENTERS = ECONOMIC DEVELOPMENT

$45.8 billion spent annually in the construction of retail creates $108.4 billion in total economic activity for industries and labor up and down the supply chain.

To learn more, visit www.icsc.org

Sources: ICSC, Bureau of Economic Analysis, CoStar/JREPM, U.S. Census, NAIOP, NAREIT and Lazard Global Real Estate Securities.