

TOP NINE TAKEAWAYS

What Real Estate Investors Need to Know About the Pending Tax Reform

1 INDIVIDUAL INCOME TAX RATES

Current 2017 Rates			Proposed Rates		
Income			Income		
Low End	High End	Rate	Low End	High End	Rate
0	19,000	10%	0	24,000	0%
19,000	77,000	15%	24,000	90,000	12%
77,000	156,000	25%	90,000	260,000	25%
156,000	238,000	28%	260,000	1,000,000	35%
238,000	425,000	33%	1,000,000	+	39.6%
425,000	483,000	35%			
483,000	+	39.6%			
Standard Deduction = 13,000			Standard Deduction = 24,000		

Fewer categories. Slight increase, decrease, or no change depending on your income level.



2 CORPORATE INCOME TAX RATE

Taxpayers should use **Cost Segregation** and other tax strategies to move reported income from 2017 to 2018 and future years in order to generate a permanent net benefit.

3 BONUS DEPRECIATION

For ground-up new construction, this will increase the benefit achieved through a Cost Segregation analysis. This might also allow for 100% immediate expensing of any Qualified Leasehold Improvement Property, negating the need for a Cost Segregation study. It would have no impact on the acquisition of existing property.



for property placed in service **9/27/17 - 2022**

Mortgage interest deduction remains unchanged for homes that are already owned

The cap on mortgage interest deduction will be reduced from home values of **\$1M to \$500K** for homes purchased in 2018 or later

Property tax deduction will be capped at **\$10,000**

4 HOMEOWNER DEDUCTIONS

These changes would not directly impact most homeowners in the middle class and below, but will increase the cost of homeownership for the upper middle class and above. This may result in the softening of home values in markets where the typical home is worth more than \$500,000. Greater competition for lower priced homes may push people towards the rental market and result in increased residential rental rates and/or an increase in the volume of rental properties.

5 HOUSE FLIPPING

It will become more difficult to flip a primary residence, as the intent is to make homeownership a longer term investment.

Tax free capital gains allowed if homeowner has lived there for

CURRENT RULE at least 2 of the past 5 years

PROPOSED CHANGE at least 5 of the past 8 years



In addition, only allowed once every five years.

CURRENT RATE **\$500K** QUALIFYING CAPITAL EXPENDITURES

PROPOSED RATE **\$5.0M** QUALIFYING CAPITAL EXPENDITURES

PHASES OUT AS EXPENDITURES EXCEED **\$2.0M+**

PHASES OUT AS EXPENDITURES EXCEED **\$20.0M+**

6 SECTION 179 EXPENSING

This is a significant boost for smaller businesses. Clarification will be needed as to how much, if any, real property will be eligible for Section 179 expensing.

7 LIKE-KIND EXCHANGES

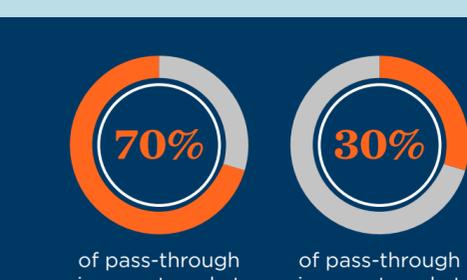
Property sellers may need to be careful when selling property and plan for the capital gains and recapture tax liability attributable to personal property. If property is acquired with the intent to hold for a short period of time, this change may motivate the property buyers to characterize more of the property as real property.



Section 1031 like-kind exchanges restricted to real property only



Capital gains and recapture tax will not be deferred for any personal property that is part of a sale



8 PASS-THROUGH ENTITIES

This is intended to prevent sophisticated taxpayers from abusing the lower corporate tax rate and applying it to what should be individual income.

9 ALTERNATIVE MINIMUM TAX (AMT)

Real estate investors are free to maximize the amount of deductions through depreciation and other means without running into AMT limitations.



The proposed tax reform bill removes the AMT

QUESTIONS?

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