

# TAX REFORM: IMPACT ON REAL ESTATE AND CONSTRUCTION INDUSTRIES



PROVISION	CHANGE	PROJECTED IMPACT
<b>Corporate Tax Rate</b>	Reduced corporate rates to a flat <b>21%</b> Corporate AMT repealed	Reduces tax burden for C-corps Still a second layer of tax to hold real estate in C-corp
<b>Qualified Business Income (QBI) &amp; Domestic Production Activities Deduction (DPAD)</b>	Individuals may take a <b>20% deduction of QBI</b> from partnerships, S corps and sole proprietorships DPAD eliminated	Levels the playing field for flow-throughs and C-corps Increase in taxable income due to loss of DPAD offset by QBI deduction for flow-throughs
<b>Triple Net Leases</b>	No change	Triple net lease income is not considered earned income, and as such is not QBI
<b>Bonus Depreciation</b>	Applies to both <b>new and used</b> property acquired after 9/27/17 <b>100%</b> for property acquired and placed in service 9/28/17 through 2022	Allows for bonus depreciation on assets used in real property trades Cost segregation studies more valuable now for tangible personal property expensing
<b>Section 179 Depreciation</b>	Expense limit doubles from \$500,000 to <b>\$1 million</b> Phase-out for assets placed in service increases to <b>\$2.5 million</b> Includes replacements of roofs, HVAC, fire protection & alarm and security systems for non-residential real property Includes tangible personal property for lodging	Maximize Section 179 by expensing newly eligible items during renovation projects
<b>Depreciation of Residential &amp; Commercial Property</b> (Technical Correction Pending)	Definitions for qualified leasehold improvement, qualified restaurant improvement and qualified retail improvement eliminated Replaced with <b>single definition</b> for 15-year recovery period for qualified improvement property	Restaurant property is no longer depreciated over 15 years, most will now depreciate over 39 years
<b>Interest Expense Deduction</b>	Businesses subject to disallowance of net interest expense <b>over 30%</b> of adjusted taxable income, EBITDA for 4 years then EBIT after with unlimited carryforward Exemption for businesses <b>under \$25 million</b> in gross receipts and real property trades or businesses	Developers incurring significant start-up expenses for new projects within the same taxable entity could find themselves deferring the interest expense deduction as a result of lower taxable income To opt out, you must change your depreciation method to ADS
<b>Like-Kind Exchanges</b>	Not repealed for real property Personal property not eligible	
<b>Estate Tax</b>	Increased exemption to <b>\$11.18 million</b> per person in 2018	No change to step-up in basis
<b>Historic Tax Credit</b>	20% Historic Tax Credit is claimed ratably <b>over 5 years</b>	Reduced initial year of credit allowed Minimizes recapture impact Makes financing more difficult

To learn more about our services or arrange meeting with our team, please contact:

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