Tax Reform Commentary: Beneficial to REIT Preferreds

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REIT Preferred Asset Class Benefits from Tax Cuts and Jobs Act

Executive Summary

- **REIT preferred investors, no mater where domiciled, should achieve higher after-tax returns**
- **U.S. investors will experience lower flow-through ordinary income tax rates**
- **Non-U.S. investors will experience lower capital gains withholding taxes**
- **Investors should experience lower taxation and lower tax withholding on REIT preferred dividends**

Impact on U.S. based investors in REIT preferreds: Lower ordinary income tax rates

As shown in the table below, U.S.-based investors in REIT preferreds, the pass-through business income tax rate would be lowered through the creation of a new 20% deduction for individuals, estates, and trusts of their Combined Qualified Business Income Amount (CQBIA). As a consequence of this deduction, REIT dividends would generally be taxed at a top rate of 29.6% (or 33.4% when including the ACA surtax on all investment income) – a substantial 10% lower rate for those investors now in the highest income tax bracket. The portion of REIT preferred dividend distribution attributable to capital gains will continue to be taxed at 20%.

Illustration of Dividend Income Tax Savings under TCJA

	Old Tax Rates	TCJA Tax Rate
Hypothetical Dividend Income	$100	**$100**
Less: 20% Pass-Through Income Deduction	--	**($20)**
Taxable Dividend Income	$100	**$80**
Highest Marginal Income Tax Rate	39.6%	**37.0%**
Dividend Income Tax	$39.60	**$29.60**
Dividend Income Tax Rate	39.6%	**29.6%**

Impact on non-U.S. based investors in REIT preferreds: Lower capital gains withholding tax rates

The TCJA reduces the withholding tax rate applicable to REIT capital gain distributions to non-U.S. shareholders from the sale or exchange of U.S. real property interests. The withholding tax rate declines to 21% (the highest corporate tax rate in effect for 2018), from 35% previously.

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