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The Real Estate Finance Journal: Building the Best Strategies for Real Estate After Tax Reform

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In an article published by The Real Estate Finance Journal on July 13, James McCarten and Scott Miller discuss real estate strategies to consider after the Tax Cuts and Jobs Act of 2017. "The consequences of Tax Reform on real estate-related business tend to be favorable, but that conclusion is by no means true for all in the industry; some real estate businesses do not fare as well as others under these new rules," they state. One beneficial aspect is the reduction in the marginal tax rate for individuals and trusts and estates in real estate, which arises from the new 20 percent qualified business income ("QBI") deduction (new Section199A). "The QBI Deduction is calculated on a business-by-business basis. Accordingly, the QBI Deduction must be "earned" by real estate owners and investors. An analysis of the business structure of new real estate projects or the re-structuring of existing projects is necessary to assure that the benefit from this new deduction is maximized," the attorneys explain.

"Perhaps the most important of the changes impacting residential real estate are the limitations imposed upon the deductibility of mortgage interest by individuals," they state. Beginning with the 2018 tax year, individuals can only deduct the interest attributable to the first $750,000 of borrowing made to acquire a residence. The repeal of the tax deductions associated with home ownership is likely to adversely impact the number of individuals purchasing homes. On the other hand, any reduction in homeowners is likely to have a positive effect on the market for apartments and high-end rentals, and is therefore bound to favorably impact those in the real estate industry who build, develop or own such projects.

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