New Tax Plan 2017 Highlights

The Trump Administration released a new “Framework” for taxes.
Very few substantive details at this time.

- The new plan will lower taxes and create a budget shortfall - so creates a budget deficit increase unless tax cuts spur sufficient growth to offset as some believe.
- Very few provisions that have a direct impact on commercial real estate, but Low Income Housing tax breaks are preserved
- Reduces number of tax brackets and simplifies some tax reporting rules, but no details on what the income breakouts would be so cannot determine implications
- Will not be retroactive, so no changes to 2017 taxes in this framework – would come into play for 2018 tax year
- No comments on 1031 or Carried Interest in framework

Summary

- The just released Unified Framework gives a little more detail on tax reform but still lacks significant details that are being left for Congressional committees to decide
- Impacts on commercial real estate currently appear minimum with “pass-through” tax rates set at 25% but no comments on 1031 Exchanges or changes to mortgage interest deductions
- One estimate puts total costs between $2 & $2.5 trillion over next decade but no comments how it will be covered (budget cuts/higher borrowing).

Individuals

- Collapse 7 tax brackets into 3 – 12%, 25% and 35% with a possible 4th for above 35% for highest income HHs (no breakout on income levels for brackets)
- Standard deduction doubled for most HHs - $12K for individuals & $24K for married couples
- Most Itemized deductions eliminated (including state & local tax expenses) but mortgage interest expense and charitable giving retained
- Estate tax repealed
- Alternative Minimum Tax repealed

Businesses

- Corporate tax rate lowered to 20% from 35% currently
- “pass-through” businesses (partnerships & LLCs) to be reported on individual returns at 25%.
- Tax breaks for low-income housing preserved
- One time repatriation tax to encourage corporations to return offshore profits to US, plus future overseas earnings would not be taxed (could be changed however to lessen budget hit)
- Businesses allowed to immediately write off the cost of new investments in depreciable assets other than structures for at least five years

Further Details

- Tax changes will not be retroactive – Thus, any changes approved this year will not take effect until 2018
- Preliminary estimate says that the changes will cost between $2 to $2.5 trillion over the next 10 years
- GOP leaders willing to accept up to $1.5 trillion cost for tax changes – not known how much of total cost will be paid for through budget cuts and increasing government debt
- Some GOP members of Congress say that a growing economy will pay for tax cuts

Other Points

- 1031 Exchanges Appear Untouched
- No comments on Carried Interest
- Can’t estimate cost accurately because too many pieces still missing