

Tax Cuts and Jobs Act for 2018 and Beyond

Bachecki, Crom & Co. LLP | Carmel, California

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We recommend that you consult with a CPA or tax advisor to discuss how current laws apply to your specific situation.

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Jerry has worked in the accounting profession since 1963. After earning his BA in accounting he worked for six years in the U.S. General Accounting Office and the Internal Revenue Service. He then spent time as a senior staff accountant with a San Francisco based firm. In 1971 Jerry started his own sole proprietorship which quickly grew into Gerald W. Bachecki and Co. Today that firm is Bachecki, Crom and Co, LLP.

Jerry directs the firms Personal Planning, Trust Administration, and Litigation Support areas. He has completed training in Advanced Personal Financial Planning and the Estate Planning Certificate Program. He also continues to work with clients on tax, trust, and estate planning matters.

Jerry has recently become a member of The Carmel Foundation and serves on the Board of Directors.

Professional Affiliations:

- American Institute of Certified Public Accountants
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Kimberly J. Lam is a Partner of Bachecki, Crom & Co., LLP, a public accounting firm in the San Francisco Bay Area, specializing in bankruptcy tax, forensic accounting and fraud investigations. She provides consulting on bankruptcy and insolvency matters, including income tax and cash flow analysis pertaining to liquidation of bankruptcy estate assets, tax elections, and attribute utilization, financial advisory, avoidable transfers, solvency, claim analysis, and assistance in complying with Bankruptcy Court and tax filing requirements.

Kimberly has more than 20 years of experience in public accounting. Kimberly also specializes in and enjoys providing tax consulting and compliance services to high net worth individuals and their related entities including trusts, partnerships and corporations. She has extensive experience working with professional service companies, law firms and real estate businesses. She has worked with closely held family businesses, high growth companies and companies in bankruptcy with multi-state and multi-national operations to provide accurate and timely compliance. Kimberly often works closely with her clients and their advisors and attorneys to develop and implement strategic plans that minimize income and estate taxes. Kimberly prides herself in providing a comprehensive, thoughtful and personalized approach to her client's tax and financial needs.

Kimberly is a native of San Francisco and received her Bachelor of Arts in Business and Accounting from the San Francisco State University. She began her professional career in public accounting at Ernst & Young and Arthur Andersen. Kimberly was admitted to the partnership of Bachecki, Crom & Co., LLP in 2007.

Professional affiliations:

- Member, California Society of Certified Public Accountants
- Member, American Institute of Certified Public Accountants
- Member, Association of Insolvency and Restructuring Advisors
- Member, Bay Area Bankruptcy Forum-San Francisco
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Alice Yee is a Senior Tax Manager of Bachecki, Crom & Co., LLP, a public accounting firm in the San Francisco Bay Area, specializing in tax consulting and compliance services to high net worth individuals and their related entities including trusts, partnerships, and corporations.

Alice earned a Bachelor of Science in Accounting from San Francisco State University and joined Bachecki, Crom & Co., in October 1989. Alice has completed both the Estate Planning Certificate Program and the Advanced Personal Financial Planning Certificate Program sponsored by the California Society of Certified Public Accountants Education Foundation.

Alice has more than 35 years of experience in public accounting. Throughout her extensive career in public accounting, Alice has developed specialized skills in tax planning, estate planning, trust administration, and retirement planning. Her professional motivation comes from assisting clients in planning for their golden years, so they can achieve good health, wealth and happiness.

Alice speaks fluent Cantonese.

Professional affiliations:

- Member, California Society of Certified Public Accountants
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Tax Cuts and Jobs Act 2018 Perspective

Executive Summary: Impact of New Tax Law

- ❖ **Lower Tax Rates Offer Economic Lift**
 - ✓ Extended growth cycle means extra-innings for CRE
- ❖ **Clarity on Real Estate Taxes Empowers Decision Making**
 - ✓ Retention of 1031 exchange, mortgage interest deduction and Depreciation supports values and investment strategies
- ❖ **Reduced Tax Rates Could Increase Market Liquidity**
 - ✓ After-tax yields on real estate boosted by 20% deduction on pass through income
 - ✓ Favorable after-tax yields may entice additional investment
- ❖ **Economic Strength Raises Inflation & Interest Rate Risk**
 - ✓ Ideal time to buy, sell or refinance – lock rates/maximize returns

Personal Tax

Tax Comparison
Individual Tax Rates
Before and After Tax Cuts and Jobs Act

2017

Single				
Taxable Income		Tax Is:		Of the amount over -
Over -	But Not Over -			
\$0	\$9,325	10.0%		\$0
\$9,325	\$37,950	\$932.50 +	15.0%	\$9,325
\$37,950	\$91,900	\$5,226.25 +	25.0%	\$37,950
\$91,900	\$190,650	\$18,713.75 +	28.0%	\$91,900
\$190,650	\$416,700	\$46,643.75 +	33.0%	\$190,650
\$416,700	\$418,400	\$120,910.25 +	35.0%	\$416,700
\$418,400	...	\$121,505.25 +	39.6%	\$418,400

Married Filing Jointly or Qualifying Widow(er)				
Taxable Income		Tax Is:		Of the amount over -
Over -	But Not Over -			
\$0	\$18,650	10.0%		\$0
\$18,650	\$75,900	\$1,865 +	15.0%	\$18,650
\$75,900	\$153,100	\$10,452.50 +	25.0%	\$75,900
\$153,100	\$233,350	\$29,752.50 +	28.0%	\$153,100
\$233,350	\$416,700	\$52,222.50 +	33.0%	\$233,350
\$416,700	\$470,700	\$112,728.00 +	35.0%	\$416,700
\$470,700	...	\$131,628.00 +	39.6%	\$470,700

2018

Single				
Taxable Income		Tax Is:		Of the amount over -
Over -	But Not Over -			
\$0	\$9,525	10.0%		\$0
\$9,525	\$38,700	\$952.50 +	12.0%	\$9,525
\$38,700	\$82,500	\$4,453.50 +	22.0%	\$38,700
\$82,500	\$157,500	\$14,089.50 +	24.0%	\$82,500
\$157,500	\$200,000	\$32,089.50 +	32.0%	\$157,500
\$200,000	\$500,000	\$45,689.50 +	35.0%	\$200,000
\$500,000	...	\$150,689.50 +	37.0%	\$500,000

Married Filing Jointly or Qualifying Widow(er)				
Taxable Income		Tax Is:		Of the amount over -
Over -	But Not Over -			
\$0	\$19,050	10.0%		\$0
\$19,050	\$77,400	\$1,905.00 +	12.0%	\$19,050
\$77,400	\$165,000	\$8,907.00 +	22.0%	\$77,400
\$165,000	\$315,000	\$28,179.00 +	24.0%	\$165,000
\$315,000	\$400,000	\$64,179.00 +	32.0%	\$315,000
\$400,000	\$600,000	\$91,379.00 +	35.0%	\$400,000
\$600,000	...	\$161,379.00 +	37.0%	\$600,000

Significant Changes to Deductions*

Old Tax Law	Tax Cuts and Jobs Act of 2017
Standard Deduction Single: \$6,350 Married: \$12,700	Standard Deduction Single: \$12,000 Married: \$24,000
Personal Exemption of \$4,150	Repealed
State and Local Taxes (SALT) fully deductible	SALT deduction capped at \$10K
Mortgage Interest Deduction for up to \$1M in new mortgage debt	Mortgage Interest Deduction for up to \$750K in new mortgage debt
Home equity loan deductible up to \$100K	Repealed
Estate tax exemption limit Single: \$5.49M Married: \$10.98M	Estate tax exemption limit Single: \$10.98M Married: \$21.96M

Tax Law Changes Could Influence Behavior

❖ **Housing Demand Could Favor Rentals**

- ✓ Tax incentives benefiting homeownership diminished
- ✓ Areas with high home prices and tax rates could face changing housing market climate
 - California, Northeast
- ✓ Upper-tier rentals that historically face competition from homeownership could see advantage

❖ **Long-term Prospects of Healthcare Real Estate Could Soften**

- ✓ Elimination of personal mandate of ACA
 - Will reduce number insured by 13 million over 10 years
- ✓ May modestly reduce demand for healthcare and medical related real estate compared to previous forecasts

Key Tax Provisions for Real Estate

Like-Kind Exchanges (1031 Exchange)

❖ **Old Tax Law**

- ✓ Like-Kind Exchanges: Available for all property held for investment or use in a trade or business

❖ **New Tax Cuts & Jobs Act**

- ✓ Like-Kind Exchanges: Limited to exchanges of real property

Deductibility of Business Interest

❖ **Old Tax Law**

- ✓ Business interest fully deductible

❖ **New Tax Cuts & Jobs Act**

- ✓ Imposes limitation on business interest (with exemptions for some small businesses- \$25M test)
- ✓ Real estate companies may elect to maintain full deductibility of interest
- ✓ Election requires longer depreciation period for buildings

Depreciation

❖ Old Tax Law

- ✓ Depreciation of residential structures: 27.5 years
- ✓ Depreciation of non-residential structures: 39 years

❖ New Tax Cuts & Jobs Act

- ✓ If firm abides by limits on interest deductibility;
 - 27.5 years for residential*
 - 39 years for non-residential*
- ✓ If electing out of limits on interest deductibility;
 - 30 years (residential)*
 - 40 years (non-residential)*

* Can still do Cost Segregation to carve out and accelerate 5-year and 15-year property

Depreciation –Tax Cuts and Jobs Act

❖ **Accelerated Depreciation and Expense Rules**

- ✓ Cost Segregation can carve out and accelerate depreciation on 5-year and 15-year property
- ✓ New provisions for bonus depreciation of capital expenditures to potentially fully expense items – numerous restrictions depending on application
- ✓ Under new Section 179, owners able to fully expense up to \$1M for business assets including furnishing. HVAC, roofing and security systems in non-residential. Phases out after \$2.5M

Real Estate Investor VS Real Estate Professional

**REAL ESTATE PROFESSIONAL
(vs. REAL ESTATE INVESTOR)**

CATEGORIES

Types of Income (Loss)

2017 & PRIOR

2018 & AFTER

INVESTOR	PROFESSIONAL
Passive- Can <u>only</u> deduct losses against other Passive Inome. (Income Buckets- Porfolio+ Business)	Ordinary- Can deduct against <u>all</u> other income.
Can deduct up to \$25,000 loss if <u>actively</u> participates. Carry Over allowed to future years or until sold.	Can deduct 100% if <u>materially</u> participates. Can qualify as NOL. Can go back 2 years and/or forward 20 years.
CA non-conforming	CA non-conforming

INVESTOR	PROFESSIONAL
Still <u>passive</u> but IRC199A allows 20% deduction for pass through rental income subject to taxable income limitations. Can also offset with rental losses & still get 20% deduction on net.	Still <u>ordinary</u> but IRC199A allows 20% deduction for pass through rental income subject to taxable income limitations.
No NOL carrybacks and 80% limitation to carryover year taxable income.	No NOL carrybacks and 80% limitation to carryover year taxable income.
CA non-conforming	CA non conforming

Limitations

Questions & Answers

Thank you

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