Inland Insights

Inland Real Estate Investment Corporation

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New Tax Act Provides Substantial Tax Savings to REIT Shareholders*

The Tax Cuts and Jobs Act (TCJA) provides substantial tax savings to real estate investment trust (REIT) investors. The act allows individuals to deduct up to 20% of ordinary REIT dividends, with the remainder of the income taxed at the filer's marginal rate. The effect on REIT investors who paid the top income tax-rate of 39.6% on 2017 distributions will be a drop in taxable rate to 29.6%, producing an after-tax savings of 25.3%.

Old Tax Rates[1]	New Tax Rates[1]	New Deduction on Ordinary REIT Dividends	Effective Tax Rate Ordinary REIT Dividends
39.6%	37.0%		29.6%
35.0%	35.0%		28.0%
33.0%	32.0%		25.6%
28.0%	24.0%	20%	19.2%
25.0%	22.0%		17.6%
15.0%	12.0%		9.6%
10.0%	10.0%		8.0%

To illustrate, a $100,000 REIT investment under the new tax act would have an after-tax yield that is 70 basis points higher[2] than the same investment in 2017.[3]

Example REIT Investment	2017 Tax Scenario	2018 Tax Scenario with TCJA Adjustment
Investment	$100,000	$100,000
Pre-Tax Ordinary Distribution	$7,000	$7,000
Effective Income Tax Rate	39.6%	29.6%
Tax	$2,772	$2,072
After Tax Income	$4,228	$4,928
After Tax Yield	4.23%	4.93%

Please check with your individual tax advisor to determine how your individual tax profile is affected.

[1]Income levels vary between the old and new tax rates.

[2]Assumes a 7% distribution rate and the maximum tax rate payable.

[3]The hypothetical does not take into account the 3.8% Medicare tax on net investment income or any applicable state and local taxes.

* REIT investments are included in the TCJA definition of qualified business income, with qualified REIT dividends, qualified cooperative dividends and qualified publicly traded partnership income specifically identified.

Please see reverse for important disclosures.

How Does the Math Work?

The IRS typically breaks REIT distributions into three categories: 1) ordinary income, 2) capital gains and 3) return of capital.

In 2017, an individual in the highest tax bracket paid 39.6% on ordinary REIT distributions.

In 2018, there are two new factors: 1) a deduction up to 20% for the ordinary income portion of a REIT distribution and 2) a lower tax rate. An individual in the highest tax bracket in 2018 will pay 29.6% on ordinary REIT distributions.

In the 2018 Tax Scenario, multiply pre-tax ordinary distribution by the effective income tax rate ($7,000 x 29.6% = $2,072), then subtract that from the pre-tax ordinary distribution to get the after tax income ($7,000 - $2,072 = $4,928).

Disclosure

New legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws and these changes may affect the taxation of a stockholder. You are urged to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments or proposals and their potential effect on an investment in a REIT.

The views expressed herein are subject to change based upon economic, real estate and other market conditions. These views should not be relied upon for investment advice. Any forward-looking statements are based on information currently available to us and are subject to a number of known and unknown risks, uncertainties and factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

Important Risk Factors to Consider

Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- local property supply and demand conditions;
- ability to collect rent from tenants;
- vacancies or ability to lease on favorable terms;
- increases in operating costs, including insurance premiums, utilities and real estate taxes;
- federal, state or local laws and regulations;
- changing market demographics;
- changes in availability and costs of financing; and
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods.

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