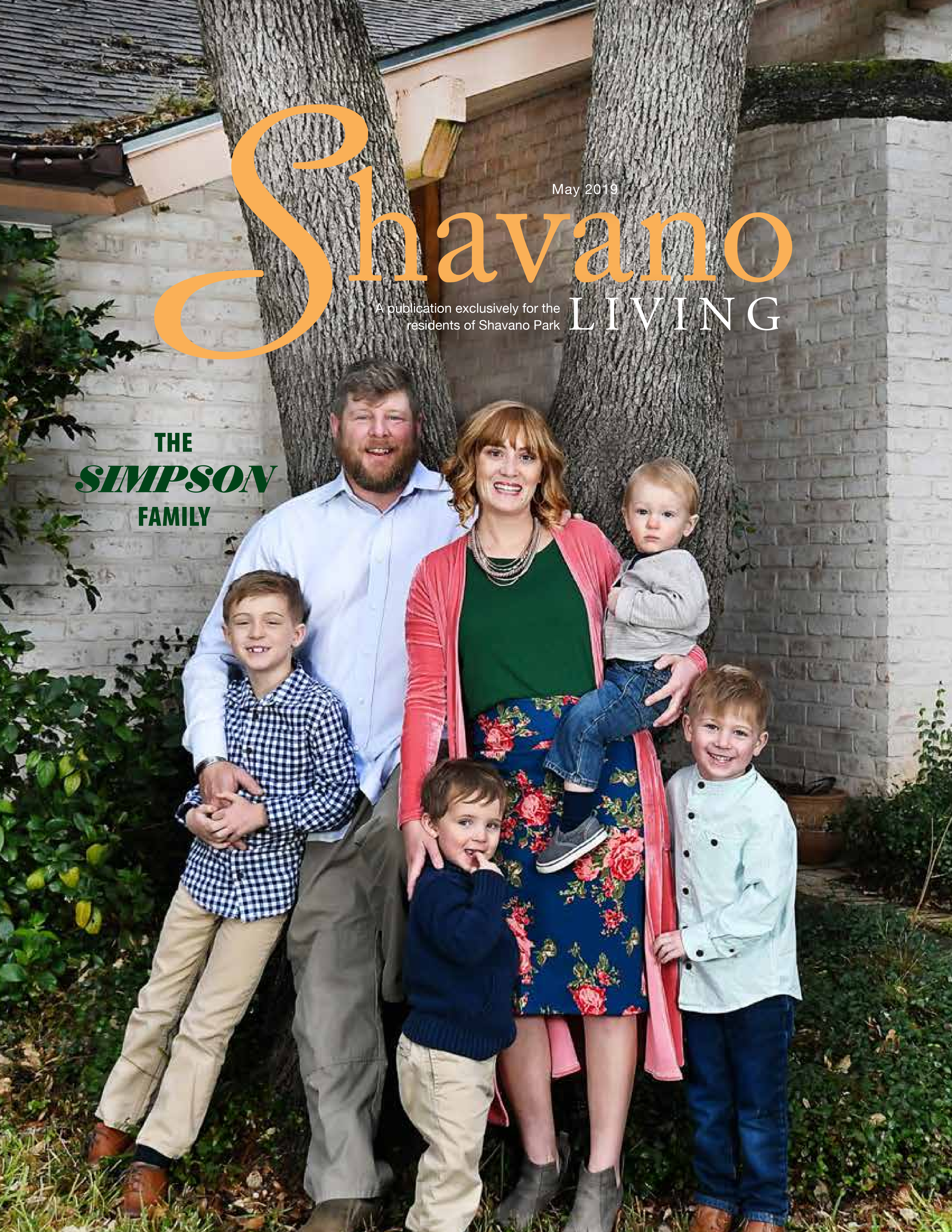
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REAL ESTATE & INVESTMENTS

YOUR TAXES

By **Steven Bankler, CPA**, Shavano Park Resident

Do you invest in commercial real estate? You don't need to be a mogul to do it, and certain tax advantages can make it worthwhile. Some recent tax changes should be noted, however, even for those who aren't new to investing in commercial real estate as part of their portfolio.

Do You "Trust" Commercial Real Estate?

One of the easiest ways to invest in commercial real estate without donning a hard hat is through real estate investment trusts (REITs). REITs allow individual investors to buy shares of commercial real estate for their portfolios. These shares usually include income from a specific property sector like apartment complexes, data centers, healthcare facilities, hotels, infrastructure like cell towers and energy pipelines, office buildings, retail centers, and self-storage. The largest U.S. private prisons operate as REITs, as do well-known brands like Simon Property Group and Public Storage.

Most REITs are equity-based and generate revenue through rental income (not by reselling), but there are also mortgage and hybrid REITs. They can be further classified as being publicly traded, public but non-traded, and private. With so many options, ways to invest, and circumstances in which market conditions can dramatically affect returns, it's important to work with an investment advisor to decide whether REITs are a good option for your portfolio. As a tax professional, I can't give you that answer. But I can tell you how the tax advantages surrounding REITs have recently changed. For most investors, it's for the better.

Under the recent Tax Cuts and Jobs Act (TCJA), REIT income can be subject to a 20-percent pass-through deduction for investors who make up to a certain income threshold, even for those who don't itemize deductions. And unlike new limits placed on property that is owned directly — from a reduction on mortgage debt allowances to a cap on state and local property tax deductions — REITs are excluded from wage restrictions and have no deduction cap. Those who invest in foreign REITs can usually reap TCJA rewards, too, because the funds are now subject to a low 21 percent across-the-board corporate tax rate.

An Additional "Opportunity"

Some REITs are given even better tax treatment because they invest in revitalizing neighborhoods. These funds focus on Qualified Opportunity Zones (QOZ), which are communities that are deemed economically distressed.

The beauty of these opportunities goes beyond community improvements (although that's a good start). The longer you invest in QOZs, the more tax savings you earn. For instance, you can receive 10 percent of gains tax-free after five years, 15 percent of gains tax-free after seven years, and up to 100 percent of gains tax-free after 10 years (depending on the property's fair market value). For this reason, reinvesting certain capital gains into a QOZ may be a great way to defer — and potentially reduce — the taxes you owe.

QOZs are still being evaluated and approved, but there are already 24 located throughout San Antonio and Bexar County. Like REITs, you don't need to live, work, or have a business anywhere near a particular QOZ to invest in it. But not all opportunity zones are REITs, so it's important to weigh your options with both an investment advisor and tax advisor before choosing the route that's right for you.

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection, as well as, exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past *Shavano Living* tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com