

Tax Reform Bill Scorecard

On December 19, the U.S. House of Representatives passed a comprehensive tax reform package, H.R. 1/S. 1, by a vote of 227-203. The bill was a compromise struck between the House and Senate's previous tax bills. The Senate passed the compromise bill the next day, December 20. This bill was signed into law on December 22 by President Donald Trump. H.R. 1, the "Tax Cuts and Jobs Act," is a sweeping tax rewrite that could create ripple effects throughout the U.S. economy for decades. Here is a breakdown of the provisions important to the commercial real estate industry.

Provision	Compromise Bill Passed by House & Senate
Corporate Rate	↑ WIN- Permanently reduces the rate to 21% starting in 2018.
Pass-Through Rate	↑ WIN- Pass-through entities can deduct 20% of qualifying income with the remainder taxed at the individual rate.
Interest Deductibility	↑ WIN- The bill creates an opt out for real estate businesses to exempt themselves from the cap on interest deductibility so long as they accept an alternative depreciation schedule.
15-year Leasehold Depreciation*	↔ Toss Up- Depending on if you choose to opt out of the cap on interest deductibility, leasehold depreciation either goes up to 20 year or down to 15 years.
Full Expensing** (100% bonus depreciation)	↔ Toss Up- If you choose to cap your interest deductibility at 30%, there is 100% expensing allowed for five years.
1031 "like-Kind" Exchanges	↑ WIN- 1031's have been preserved for real estate.
Carried Interest	↑ WIN- The reduced capital gains rate is preserved, but requires a 3-year holding period.
Historic Preservation Credit	↑ WIN- 20% credit has been maintained, but must be taken over 5 years.
New Market Tax Credit	↑ WIN- The tax credit is preserved through 2019.
179D Energy Efficient Deduction for Commercial Buildings	↔ Toss Up- The provision was left out of tax reform and remained expired until February 9, 2018 where it was reinstated retroactive for 2017 through the Bipartisan Budget Act of 2018.
HVAC Depreciation	↑ WIN- HVAC is now included as Section 179 property. Commercial building owners can now expense the cost of upgraded HVAC systems up to \$1,000,000.
Fire Sprinkler Depreciation	↑ WIN- Fire alarm and sprinkler systems are now included as Section 179 property. Commercial building owners can now expense the cost of upgraded sprinkler systems up to \$1,000,000.
Roof Depreciation	↑ WIN- Roofs are now included as Section 179 property. Commercial building owners can now expense the cost of upgraded roofing up to \$1,000,000.