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# Real Estate Tax Update

Trent Baeckl

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# Agenda

- △ **Sunset of Tax Cuts**
- △ **Tax Rate Changes for 2013**
- △ **Estate Tax Update**
- △ **Uncertain Future**
- △ **Other Items of Note**



# Sunset of Tax Cuts

**Most provisions of EGTRRA/JGTRRA are set to expire at the end of 2012 including:**

- △ **Lower tax rates** (more later)
- △ **Bonus depreciation**
- △ **High Section 179 limits** (return to previous levels)
- △ **Payroll tax holiday**
- △ **Suspension of phase out of itemized deductions/exemptions**
- △ **Indexed AMT exemption** (more later)



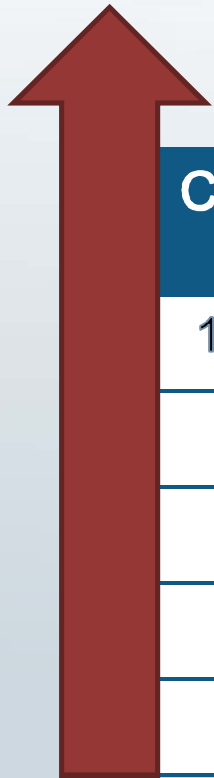
# Sunset of Tax Cuts

**A reminder of the provisions already expired at the end of 2011 including:**

- △ **100% Bonus depreciation** (reduced to 50%)
- △ **\$500k Section 179 limits** (reduced to \$139k)
- △ **15-year treatment for Qualified Leasehold/Retail/Restaurant property**
- △ **Energy efficient home construction credit**
- △ **Reduced recognition period for S Corps with built in gains**
- △ **Election to deduct general sales tax as itemized deduction**
- △ **Mortgage insurance premiums as itemized deduction**
- △ **Tax-free distributions from IRAs to charities**
- △ **Exclusion of gains on qualified small business stock**



# Tax Rate Changes for 2013



Current Tax Bracket	2013 Tax Bracket?	Married Filing Jointly	Single
10%**/15%	15%	\$0 - \$71,000	\$0 - \$35,000
25%	28%	\$71,000 - \$143,350	\$35,500 - \$86,000
28%	31%	\$143,350 - \$218,450	\$86,000 - \$179,400
33%	36%	\$218,450 - \$390,050	\$179,400 - \$390,050
35%	39.6%	Over \$390,050	Over \$390,050

**Based on 2013 proposed budget**

\*\* 10% for \$0 - \$17,500 - MFJ

\$0 - \$8,750 - Single



# Tax Rate Changes for 2013

## **Capital gains increasing**

Δ **Currently 15%** (0%/10% for lower tax brackets)

Δ **Increasing to 20% depending on tax bracket**  
(15% for lower tax brackets)

• 18%/8% for assets held > 5 years

Δ **Qualified dividends taxed at ordinary rates**  
**versus capital gains rates**

Δ **Real property depreciation recapture still 25%**  
**rate** (but watch prior bonus depreciation and  
Section 179 expense claimed)



# Tax Rate Changes for 2013

## **Investment Surtax**

- Δ 3.8% on net investment income on “high income” taxpayers**
- Δ Portfolio income and passive activities included**
- Δ Materially Participating Real Estate Professionals exempted**

## **Oregon Same as 2012**

- Δ Maximum of 9.9%**



# Gift & Estate Tax Update

## 2012

- △ **Lifetime exclusion of \$5.12M**
- △ **Federal tax rate is 35%**
- △ **Oregon – maximum tax rate of 16% (\$1M exclusion)**
- △ **Washington – maximum tax rate of 19% (\$2M exclusion)**

## 2013

- △ **Lifetime exclusion decreases to \$1M (GST Tax exemption \$1.4M)**
- △ **Federal tax rate increases to 55% (5% surcharge for estates in excess of \$10M)**

## Planning Tips

- △ **Annual gifting up to \$13,000 a year (\$26,000 if married) per recipient**
- △ **Utilize any or all of \$5.12M exclusion by 12/31/12 (look out for potential claw back)**





# Uncertain Future - 2013

## Federal income tax legislation

- △ Typical “extender” bill (AMT Patch)
- △ Extension of Bush tax cuts

## House of Representatives Bill

- △ Extend all Bush tax cuts thru 2013
- △ Increased AMT exemption for 2012 & 2013
- △ Consensus that Romney would support

## Senate Bill

- △ Extends all Bush tax cuts thru 2013 for non “high income” taxpayers
  - “High income” > \$250k – compromise at \$1M?
- △ Increased AMT exemption for 2012 only
- △ Consensus that Obama would support



# Uncertain Future - 2014 & Beyond

## Tax reform coming?

### Individual Tax

- △ Reduce tax rates for low/middle classes (Obama)
- △ Reduce tax rates across the board (Romney)

### Corporate Tax

- △ Reduce tax rates to 28% in exchange for eliminating reference/deductions (Obama)
- △ Reduce tax rates to 25% (Romney)
- △ Minimum taxes on international profits (Obama)
- △ Territorial tax system for foreign income (Romney)

### Estate/Gift Tax

- △ 45% tax rate - \$3.5M exemption for estates, \$1M for gifts (Obama)
- △ Abolish estate and gift taxes (Romney)



# Other Items of Note

## **New R&M Regulations**

- △ **Effective 1/1/12**
- △ **Acquisition of Property – de minimus rules, materials and supplies**
- △ **Improvements to Property – unit of property**
- △ **Final regulations expected to be issued early 2013 with some changes**

## **Portland/Multnomah County Update**

- △ **City of PDX – no exemptions for < 10 rentals if only business activity for 2012**
- △ **\$50k gross receipts exemption still applicable**
- △ **Multnomah County – no change**



Questions:

**Trent Baeckl**

**503-802-8626**

**[tbaeckl@perkinsaccounting.com](mailto:tbaeckl@perkinsaccounting.com)**

**Perkins & Co**

**503-221-0336**

**<http://Perkinsaccounting.com>**

**Twitter: @PerkinsCo**

