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House Republicans Unveil Tax Reform "Blueprint"

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On June 24, House Ways and Means Committee Chairman and Republican Tax Reform Task Force Chair Kevin Brady (R-TX) released "A Better Way for Tax Reform," a "Blueprint" for comprehensive tax reform on behalf of House Republicans. The 35-page document was put together with the support of Speaker of the House Paul Ryan (R-WI).

Although the proposal does not specifically mention REITs, it does include a number of items of interest to REITs and real estate investment. In particular, the Blueprint proposes reducing the maximum corporate tax rate from 35 percent to 20 percent. For sole proprietorships and pass-through entities "such as partnerships, limited liability companies and S corporations," the maximum tax rate for "active business income" would be 25 percent. The Blueprint does not define "active business income."

Notably, businesses would be entitled to expense all assets (including all structures, but not land) immediately. However, interest expense would be deductible only to the extent of interest income. The Blueprint notes that "special rules" would be developed with respect to interest expense for financial services companies, such as banks, insurance, and leasing that will take into account the role of interest income and expense in their business models.

Additionally, the Blueprint would reduce the maximum individual income tax rate from 39.6 percent (not including the 3.8 percent Medicare surtax) to 33 percent. Individuals could exclude from their income 50 percent of their net capital gains, dividends and interest income, resulting in a maximum tax rate on those items of 16.5 percent. The Blueprint also would repeal the individual alternative minimum tax (AMT) and the estate tax.

Finally, the Blueprint would move from a worldwide system of taxation to a so-called "territorial" system. An 8.75 percent tax would be imposed on accumulated foreign earnings to the extent held in cash or cash equivalents. Otherwise, a tax rate of 3.5 percent would be imposed on such income. Companies would be entitled to pay the relevant tax liability over an eight-year period.

Noting that the Blueprint "is the beginning of the conversation – not the end," Brady has expressed interest in receiving feedback concerning the Blueprint. As the dialogue on tax reform continues to advance, NAREIT looks forward to working closely with members of the REIT community to ensure policymakers fully understand the important role of REITs and REIT-based real estate investment.

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