

# 1031 EXCHANGE INSIGHTS

Volume 2, Issue 10  
October 31, 2005



**Stephen L. Robison, J.D., LL.M.**

Providing tax advice on like kind exchanges.

Strategic Property Exchanges, LLC serves as Qualified Intermediary on Section 1031 Exchanges, including forward, reverse, and parking arrangements.

For more information call  
513-412-3483  
or email at  
[steve@robisontaxlaw.com](mailto:steve@robisontaxlaw.com)

## THE PRESIDENT'S TAX REFORM, NOV. 2005

Yesterday, the President's Advisory Panel on Federal Tax Reform released its 270-page-plus report carrying two recommended options for overhauling the Tax Code. ("Plan A" below) and ("Plan B" below). At first blush, this looks like it could decimate real estate investors.

**Tax rates for individuals.** Both plans would reduce the top tax rate for individuals. Plan A would have four tax brackets: 15%, 25%, 30%, and 33%. Plan B would have only three tax rates: 15%, 25%, and 30%. Thus, both plans would reduce the top tax rate from 35%.

**Taxation of dividends.** Plan A would exclude 100% of dividends and 75% of capital gains from shares in U.S. companies (resulting in a top capital gains rate of (8.25%-25% of 33%). Apparently, this would not reduce the tax rates for the sale of business assets and real estate. Plan B would extend the current 15% top rate on capital gains and dividends to interest income as well. Corporations would neither deduct interest expense nor report interest income.

**Tax breaks for homeowners.** The mortgage interest deduction (currently capped at debt of \$1.1 million) would be turned into a 15% credit, and apply to only principal residences. Investment properties such as vacation homes, boats and motor homes treated as second homes would be eliminated. Further, the maximum debt eligible for the credit would be capped at 125% of the median sales price for the country, based on Federal Housing Administration data (current limits would range between \$227,147 and \$411,704). The report says that between 85% and 90% of mortgages originated in 2004 are estimated to fall below these levels.

The home-sale exclusion would be retained for principal residences, but the ownership and use period would be lengthened from two out of five years to three out of five years.

**State and local taxes.** The deduction for state and local taxes (including real estate and income taxes) would be repealed.

**Business provisions.** The panel also proposed a host of tax changes that would apply to businesses.

Under Plan A:

Small businesses would be taxed at the same rates as individuals; large businesses (i.e., more than \$10 million of receipts) would be taxed at a single rate of 31.5% (which is less than the current 35% top rate).

Larger businesses would benefit from simplified accelerated depreciation.

Under Plan B:

Sole proprietorships would be taxed at individual rates (i.e., top rate of 30%), and other businesses would be taxed at 30%.

Large businesses would be subject to a 30% rate and would be able to expense all new investments. **Interest paid would not be deductible; and interest received would not be taxable.**