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LETTERS

Real estate salutes tax change

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Only two things are certain — death and taxes. But tax policy in America is far from certain. We know an ox will be gored; the question is, whose ox?

Understanding tax policy and how it affects our lives is critically important. When a client inquires about the consequences of real estate foreclosure, the discussion inevitably turns from the obvious damage caused by the loss of investment to the less obvious tax implications of foreclosure. Often insult follows injury, where seven-figure losses can result in similar-sized tax implications.

In some countries, the "long view" may mean 20, 50 or even 100 years. In modern America, the long view is measured in weeks or months. Proper planning is more a matter of reading political tea leaves than real strategizing. Perhaps that's why the media spends so much time hyping the next election cycle even before the dust settles on the previous campaign.

Tax policy is influenced by the rapidly shifting political sands of every branch of government. In our bipolar political landscape, taxing priorities seem to lurch first to the left, then to the right and back again. The result of all this uncertainty is felt in boardrooms and living rooms all across the country. With government drowning in red ink, the left-right-left debate over how much of our money we get to keep will continue for years. Protecting our hard-earned money will require frontline intelligence.

In Michigan, we who depend on the health of the commercial real estate industry should embrace one recent tax change resulting from a changing political climate. Recently, Gov. Rick Snyder signed into law the new Michigan Corporate Income Tax, which will replace the Michigan Business Tax on Jan. 1. The new tax, basically a flat 6 percent of federal taxable income, is simpler and, arguably, fairer than both of its predecessors, the MBT and the Single Business Tax.

One significant benefit of the new tax to the commercial real estate industry is that, unlike the MBT, only C corporations are subject to tax. "Pass-through" entities, like S corporations, partnerships and limited liability companies are exempt from the new tax, although owners of those entities will have to pay individual income tax on profits. As most commercial real estate owners use pass-through entities, the new tax law should be a major benefit.

Another benefit of the new tax is that there is no tax liability in years when a business loses money. A major criticism of the MBT was that it imposed tax regardless of whether the taxpayer was making or losing money.

Let's hope these winds of change blow more after-tax dollars into your pockets.

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