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REAL ESTATE

Who will be the winners from Trump's proposed tax plan?

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Christie's International Real Estate listing at 795 Fifth Avenue, New York

By BRIELLE JAEKEL

The real estate industry is poised for an interesting future thanks to the current White House Administration's new Tax Reform plan, but more than just the top-tier luxury sector will benefit.

Ultra high-net worth individuals are poised to reap an annual tens-of-millions of dollars from the proposed decrease in tax percentage rate, which will likely spur investments in real estate. However, it will be the real estate companies themselves that will see greater benefits, thanks to the possible "pass-through" tax reduction.

"One and Only Realty works exclusively within the specific segment of ultra-high-net-worth individuals so of course a lowering of the top tax rate to 35 percent from 39 percent would be impactful, but the two things they are watching most closely are what happens with the Alternative Minimum Tax (AMT) and the Estate Tax," said Edward A. Mermelstein, partner at One & Only Realty Holdings, New York. "At the level of wealth that we deal with, the AMT can result in tens of millions of dollars of tax on an annual basis.

"If the estate tax is eliminated, there is more certainty for wealthy folks to make long-term investments in real estate with an eye toward creating generational wealth knowing their heirs won't be taxed heavily on their inheritance, including real estate and property," he said.

Taxes and the wealthy

President Trump is proposing to reduce taxes from 39 percent to 35 percent, which would save affluent individuals a significant number of profits every year. This will definitely support the luxury real estate market significantly, but typically this sector is already established.

Property listing photo courtesy of Sotheby's

Alternative Minimum Tax (AMT) and the Estate Tax are both a part of the president's plan to reduce. This could mean that more wealthy individuals will take their investments to real estate knowing their successors will not have to pay excessive inheritance taxes.

But it will likely be the real estate brokers businesses themselves who will not only see a boon in clients, but will also benefit from the relaxed "pass-through" tax. The "pass-through" tax is for businesses whose owners are directly impacted from its revenue.

Small business owners are the predominant real estate business owners, which means the reduction in this tax will give them some relief. Their personal rate will no longer be taxed but instead will see lower corporate rate of 25 percent, or sometimes even 12 percent.

Darien, CT home listing; Houlihan Lawrence

While yes, the luxury real estate business will be more stable from the drop in AMT, the sector itself will remain largely unchanged in relation to the mortgage interest deduction. These large real estate purchases are often done in cash and lack a formal mortgage that requires interest.

The high-tiered real estate market is primarily stable to some extent, which makes a major impact somewhat unlikely.

Taxes and luxury

The luxury industry can be especially impacted by taxes and tax reforms. With the new White House administration in office, there has been much fluctuation and speculation with what will happen.

For instance, the 1992 U.S. Supreme Court ruling "Quill v. North Dakota" may not be familiar to most, but this case is at the heart of a current legal dispute that could alter the way ecommerce operates in the United States, with particular ramifications for the luxury industry.

Earlier this year, South Dakota passed a law saying that any retailer that does a certain amount of business within a state, even if they have no physical presence there, must collect sales tax. The fight against this law from a collection of online retailers could make it all the way to the Supreme Court and have lasting effects on sales tax and online shopping in the entire country (see more).

Also, with recently instated President Trump floating the idea of a 20 percent import tax on goods coming into the

United States, an already hurting luxury market might be impacted even further.

While affluent consumers are thought to not worry about a price tag, growing research shows that practicality is a major part of the decision making process. Consumers do not think about the price tag before tax, therefore a significant rise in tax at once could mean many turn down products from overseas (see more).

"Things like the mortgage interest deduction don't impact our segment of the luxury real estate market, because at that level, homes are typically purchased outright, rather than financed," Mr. Mermelstein said. "The biggest impact on the real estate industry could potentially be the reduction in the 'pass-through' tax because so many real estate companies are small businesses.

"They would benefit from the reduction in the pass-through tax because they would no longer be taxed at their personal rate, but a lower corporate rate of 25 percent, or 12 percent in some cases," he said. "The segment of the market we deal with exclusively homes over $10 million is relatively insulated and therefore less subject to large deviations from the mean.

"That said, President Trump's tax plan in its current form, would bring a level of certainty and incentive for wealthier folks to deploy their capital and make investments that spur economic activity. Losers and winners are yet to be identified as Congress continues to work on the plan."