



# LAYING DOWN THE TAX LAW



WHAT YOU NEED TO KNOW ABOUT THE  
NEW TAX ACT & OTHER CHANGES  
TO THE REAL ESTATE LANDSCAPE



A portrait of Rory Gildea, a man with short hair and a beard, wearing a dark suit, white shirt, and patterned tie. He is smiling and standing outdoors with a blurred background. The image is overlaid with a semi-transparent orange filter.

# ACCOUNTING CONSIDERATIONS

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# TOPICS FOR DISCUSSION

- SALT Deductions & How the Overall Rates Changed
- Will You Pay Less Tax in 2018?
- Big News on the AMT
- Itemizing vs. the Standard Deduction
- Spending Power for Housing: Then, Now, & Tomorrow



## SALT DEDUCTIONS & HOW THE OVERALL RATES CHANGED

SALT= State And Local Tax (also important to include RE taxes here)

	OLD TAX LAW	NEW TAX LAW
STANDARD DEDUCTION	\$6,350 Single \$12,700 Married	\$12,000 Single \$24,000 Married
SALT DEDUCTIONS	Deduct all taxes paid (cash basis) in calendar year. All SALT deductions are also subject to AMT	Capped at \$10,000 per tax return (single or married)
MORTGAGE INTEREST	Allows interest on \$1M of debt	Allows interest on \$750K of debt. Loans originated prior to 12/15/17 grandfathered in at \$1M level

It's important to note that these deductions and changes do not apply to rental property on Schedule E





# 2017 vs. 2018 FEDERAL INCOME TAX BRACKETS

SALT= State And Local Tax (also important to include RE taxes here)

## 2017 SINGLE TAX RATES

<b>10%</b>	<b>0 TO \$9,325</b>
<b>15%</b>	<b>\$9,325 TO \$37,950</b>
<b>25%</b>	<b>\$37,950 TO \$91,900</b>
<b>28%</b>	<b>\$91,900 TO \$191,650</b>
<b>33%</b>	<b>\$191,650 TO \$416,700</b>
<b>35%</b>	<b>\$416,700 TO \$418,400</b>
<b>39.6%</b>	<b>OVER \$418,400</b>

## 2018 SINGLE TAX RATES

<b>10%</b>	<b>0 TO \$9,525</b>
<b>12%</b>	<b>\$9,525 TO \$38,700</b>
<b>22%</b>	<b>\$38,700 TO \$82,500</b>
<b>24%</b>	<b>\$82,500 TO \$157,500</b>
<b>32%</b>	<b>\$157,500 TO \$200,000</b>
<b>35%</b>	<b>\$200,000 TO \$500,000</b>
<b>37%</b>	<b>OVER \$500,000</b>

## 2017 MARRIED TAX RATES

<b>10%</b>	<b>0 TO \$18,650</b>
<b>15%</b>	<b>\$18,650 TO \$75,900</b>
<b>25%</b>	<b>\$75,900 TO \$153,100</b>
<b>28%</b>	<b>\$153,100 TO \$233,350</b>
<b>33%</b>	<b>\$233,350 TO \$416,700</b>
<b>35%</b>	<b>\$416,700 TO \$470,700</b>
<b>39.6%</b>	<b>OVER \$470,700</b>

## 2018 MARRIED TAX RATES

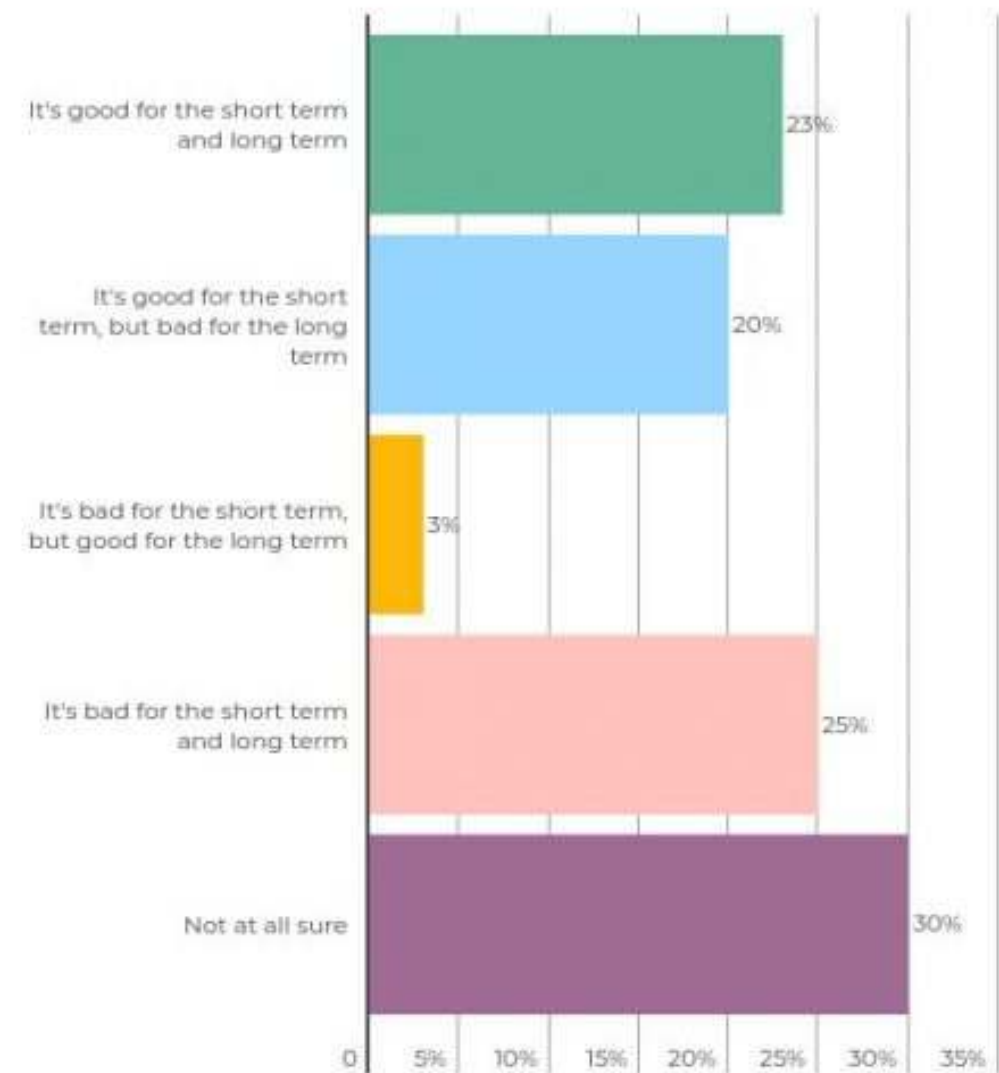
<b>10%</b>	<b>0 TO \$19,050</b>
<b>12%</b>	<b>\$19,050 TO \$77,400</b>
<b>22%</b>	<b>\$77,400 TO \$165,000</b>
<b>24%</b>	<b>\$165,000 TO \$315,000</b>
<b>32%</b>	<b>\$315,000 TO \$400,000</b>
<b>35%</b>	<b>\$400,000 TO \$600,000</b>
<b>37%</b>	<b>OVER \$600,000</b>



## WILL YOU PAY LESS TAX?

- A tax reform bill was signed into law in 2017, but more than a quarter of Americans (26%) don't know that
- While most Americans know something is changing under the new tax law (74%), not everyone knows exactly what that something is
- Where to turn to find answers?

### How Americans think the new tax law will impact the U.S. economy



Source: NerdWallet tax reform survey, conducted online by Harris Poll, January 2018  
Base: All respondents (n=2,086)







# ALTERNATE MINIMUM TAX (AMT)

AMT is a supplemental income tax imposed by the United States federal government required in addition to baseline income tax for certain individuals that have exemptions or deductions allowing for lower payments of standard income tax



## WHAT CHANGED?

- 2017 & prior income phaseout was \$160,900 for married taxpayers
- 2018 exemption phaseout is \$1,000,000 for married taxpayers, and many triggers of AMT have been eliminated (SALT, misc business deductions, etc.)

## WHAT IT MEANS:

- Under the new federal tax law, the number of tax filers hit by the Alternative Minimum Tax will drop by 96%



# ITEMIZING vs. THE STANDARD DEDUCTION

- Under the old law, you simply added up your SALT, Mortgage and Charity and if above the threshold, itemizing was better
- Under the new law, with only \$10,000 as a SALT limit, far less people will itemize
- If single, less of an issue, since it only takes \$2,000 of charity and mortgage interest to cross the itemization threshold
- If married, need more than \$14,000 worth of mortgage interest and charity before there's value in itemizing
  - (500,000 mortgage at 5% interest is approximately \$24,000 of interest in first 12 months)
  - This means that only \$10,000 of interest is providing new tax benefit







# SPENDING POWER: THEN, NOW, & TOMORROW

- **OLD METHOD**

\$3,500 monthly rent implies you could afford \$4,700 in mortgage and real estate taxes due to tax benefits

- **NEW METHOD**

\$3,500 monthly rent implies you could afford \$3,800



- Assumes real estate taxes are not deductible (pays at least \$10,000 in SALT already), and mortgage interest is only about 65% beneficial due to the high standard deduction amounts
- Changes the economic decision process from short-term benefits vs long-term appreciation

A portrait of Matthew G. Melnick, Esq., a man with short dark hair, wearing a dark suit, white shirt, and patterned tie. The image is overlaid with a semi-transparent orange filter.

# LEGAL CONSIDERATIONS

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# TOPICS FOR DISCUSSION

- It's a Buyer's Market - EVERYTHING is Negotiable
- Investor's Paradise
- The World of 1031 in 2018



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# IT'S A BUYER'S MARKET

## Typical Closing Costs Associated with a Purchase from a Sponsor:

- **Investor's New York State and New York City Real Property Transfer Taxes**
  - NYS and NYC Transfer taxes are imposed by law upon the Seller
  - New York City Real Property Transfer Tax
    - 1% if \$500,000 or less
    - 1.425% if greater than \$500,000
  - New York State Transfer Fee - 0.4% of sales price
- **When the Purchaser pays transfer taxes, they are calculated based upon a "Bulked-up price"**
- **Commercial Transfer Tax Rate applies to the simultaneous purchase of two or more non-combined units**
  - 1.425% if \$500,000 or less
  - 2.625% if greater than \$500,000
- **Mansion Tax - 1% if sales price is \$1,000,000 or more**
  - Mansion Tax may be triggered based upon the "Bulked-up price" (\$982,000)





# IT'S A BUYER'S MARKET

Now on the Table for Negotiation:

- Sponsor's Legal Fee
- Pre-Paid Common Charges/Taxes
- Resident Managers Unit Contribution
- Working Capital Fund Contribution
- Inclusion of Parking/Storage Space
- Payment of Mortgage Recording tax
- Alterations/Upgrades to Unit
- Concessions / Closing Cost Credits
- Reduction of Deposit Amount / Waiver of 2nd Deposit



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# INVESTOR'S PARADISE

- Buyer's Market = Investment Opportunities
- New Construction = more desirable for investment/rental property
- Location, Location, Location
- SALT limitations do not apply

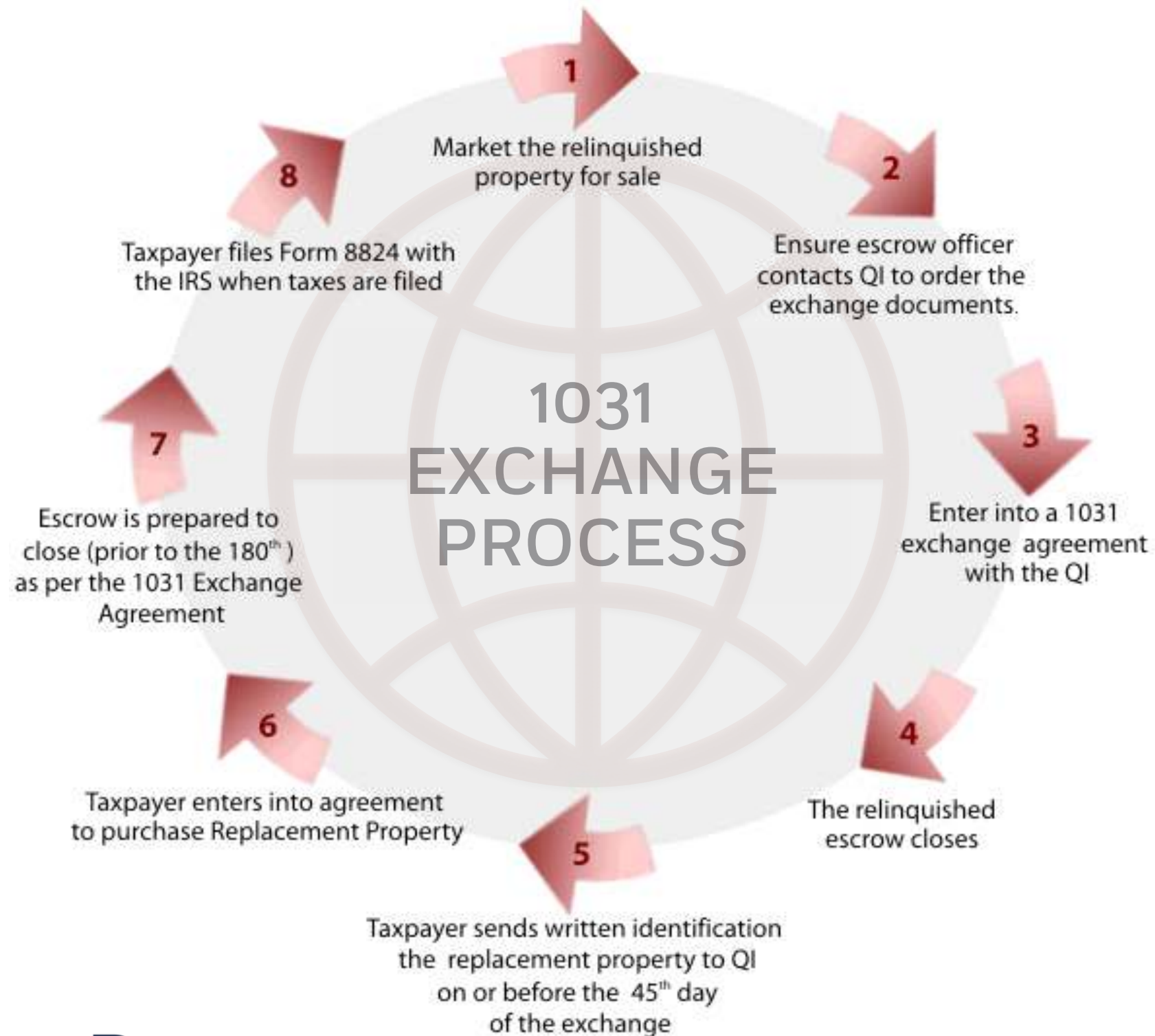


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# THE WORLD OF 1031 IN 2018



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# TRANSACTIONAL CONSIDERATIONS

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## TOPICS FOR DISCUSSION

- Agency in 2018 & The Confusion Delusion: Who Did I Just Contact?
- The Second Buyer: Appraisers
- No, You're Not Tech Startup: Brokerage Trends
- Rent vs. Buy Decision Making





# AGENCY

- Definition
- Disclosure
- First Substantive Contact
- Online Considerations
- Open Houses
- Avoiding Dual Agency



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## New York State Disclosure Form for Buyer and Seller

### THIS IS NOT A CONTRACT

New York State law requires real estate licensees who are acting as agents of buyers or sellers of property to advise the potential buyers or sellers with whom they work of the nature of their agency relationship and the rights and obligations it creates. This disclosure will help you to make informed choices about your relationship with the real estate broker and its sales agents.

Throughout the transaction you may receive more than one disclosure form. The law may require each agent assisting in the transaction to present you with this disclosure form. A real estate agent is a person who advises about real estate.

If you need legal, tax or other advice, consult a professional in that field.

### Disclosure Regarding Real Estate Agency Relationships

#### Seller's Agent

A seller's agent is an agent who is engaged to represent the seller's interests. The seller's agent, by securing a buyer for the seller's home at terms acceptable to the seller. A seller's agent, without limitation, the following fiduciary duties: reasonable care, undivided loyalty, confidentiality, full disclosure, obedience and duty to account. A seller's agent does not represent the interests of the buyer. A seller's agent is also subject to any specific provisions set forth in an agreement between the agent and the seller. In dealings with the buyer, a seller's agent should exercise reasonable skill and care in performance of the agent's duties; (b) deal honestly, fairly and in good faith; and (c) disclose all facts known to the agent that materially affect the value or desirability of property, except as provided by law.

#### Buyer's Agent

A buyer's agent is an agent who is engaged to represent the buyer's interest. The buyer's agent, by negotiating the purchase of a home on terms acceptable to the buyer. A buyer's agent, without limitation, the following fiduciary duties: reasonable care, undivided loyalty, confidentiality, full disclosure, obedience and duty to account. A buyer's agent does not represent the seller. The obligations of a buyer's agent are subject to any specific provisions set forth in an agreement between the agent and the buyer. In dealings with the seller, a buyer's agent should (a) exercise reasonable skill and care in performance of the

DOS-1736-f (Rev. 11/15)

agent's duties; (b) deal honestly, fairly and in good faith; and (c) disclose all facts known to the agent materially affecting the buyer's ability and/or willingness to perform a contract to acquire seller's property that are not consistent with the agent's fiduciary duties to the buyer.

#### Broker's Agents

A broker's agent is an agent that cooperates or is engaged by a listing agent or a buyer's agent (but does not work for the same firm as the listing agent or buyer's agent) to assist the listing agent or buyer's agent in locating a property to sell

## New York State Disclosure Form for Buyer and Seller

function as the seller's agent representing the interests of and advocating on behalf of the seller in the negotiations between the buyer and seller. A designated sales agent cannot provide the full range of fiduciary duties to the landlord or tenant. A designated sales agent cannot provide full range of fiduciary duties to the buyer or seller. The designated sales agent must explain that like the dual agent

under whose supervision they function, they cannot provide undivided loyalty. A buyer or seller should carefully consider the possible consequences of a dual agency relationship with designated sales agents before agreeing to such representation. A seller or buyer provide advance informed consent to dual agency with designated sales agents by indicating the same on this form.

This form was provided to me by Edward S. Hasicka of NextHome Residential  
(Print Name of Licensee) (Print Name of Company, Firm or Brokerage)

a licensed real estate broker acting in the interest of the:

☒ Seller as a (check relationship below)

☒ Seller's Agent

☐ Broker's Agent

☐ Buyer as a (check relationship below)

☐ Buyer's Agent

☐ Broker's Agent

☐ Dual Agent

☐ Dual Agent with Designated Sales Agent

For advance informed consent to either dual agency or dual agency with designated sales agents complete section below:

☐ Advance Informed Consent Dual Agency

☐ Advance Informed Consent to Dual Agency with Designated Sales Agents

If dual agent with designated sales agents is indicated above: \_\_\_\_\_ is appointed to represent the buyer; and \_\_\_\_\_ is appointed to represent the seller in this transaction.

(I) (We) \_\_\_\_\_ acknowledge receipt of a copy of this disclosure form:

Signature of ☒ Buyer(s) and/or ☐ Seller(s):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_









# BROKERAGES

- How a Brokerage Operates
- Role in Today's World
- Use of Technology
- Peril of Teams
- Agents are Cheap
- Three Speedbumps



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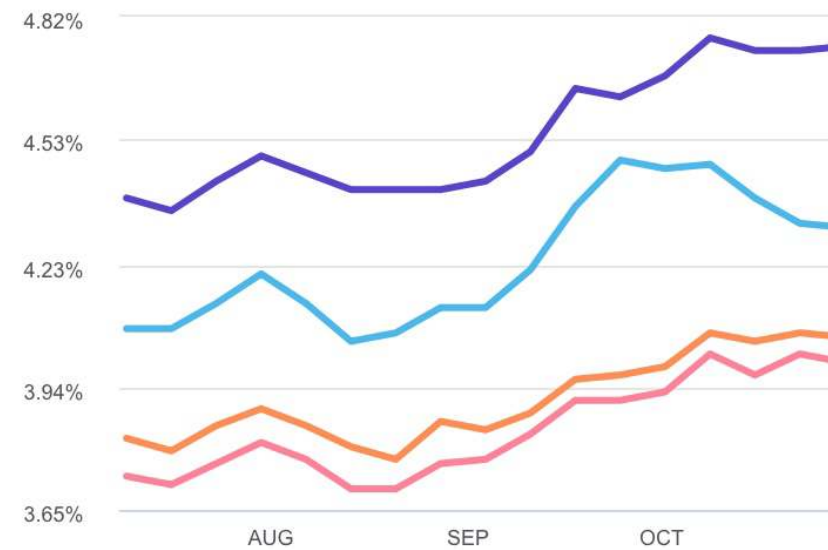
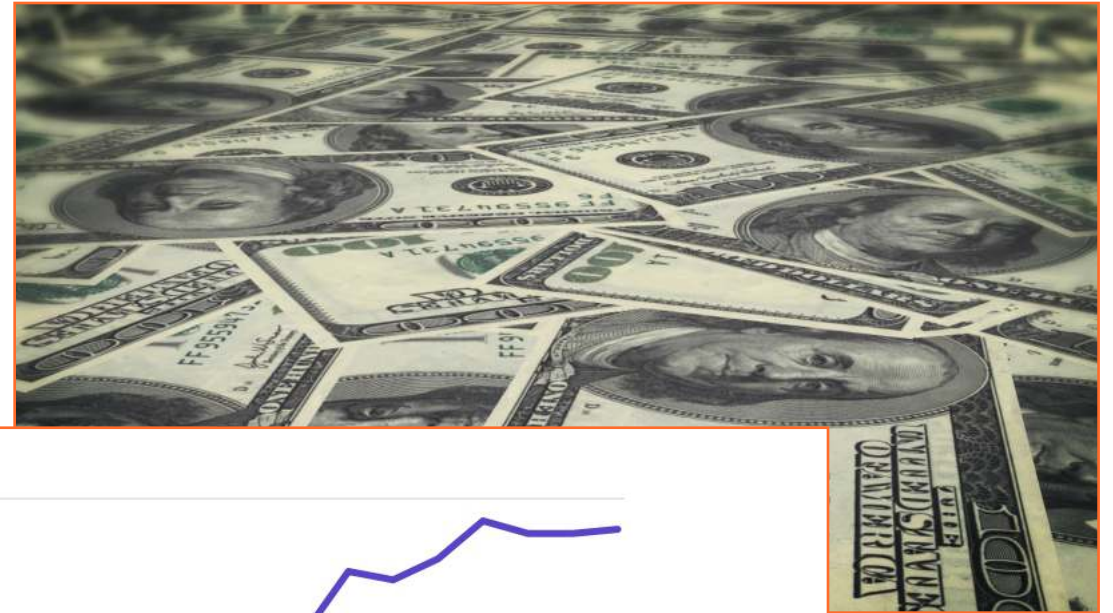
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# RENT vs. BUY

- Pendulum in Manhattan
- Interest Rates
- "True Rent"
- All about NO FEE
- NOI for Investors
- Use of Capital
- Coops vs. Condos



● 30 YEAR FIXED	4.80% APR	↗ UP
● 15 YEAR FIXED	4.13% APR	↗ UP
● 10 YEAR FIXED	4.04% APR	↗ UP
● 5/1 ARM	4.46% APR	↗ UP

Source Bankrate.com 11/8/18



# Q&A

IN CONTRACT

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