



# More after-tax income for REIT investors?

The 2017 Tax Cuts and Jobs Act was signed into law in December 2017 and introduced a change related to the taxation of ordinary REIT dividends.

## THE IMPACT OF THE TAX LAW CHANGE FOR REIT DISTRIBUTIONS

Illustration based on a REIT with a 6.0% distribution rate and assumes a 37% tax bracket

**6.0%**

Distribution rate

VS.

**6.7%**

Taxable-equivalent distribution rate<sup>1</sup>

### Summary

- REITs are generally not taxed at the corporate level to the extent they distribute all of their taxable income in the form of dividends.
- One of the central features of the tax law change is a 20% deduction on ordinary REIT dividends (dividends that are not declared as capital gain dividends or qualified dividend income).
- As a result, individual tax rates are reduced across most tax brackets. For example, investors in the highest income bracket would see their tax rates on ordinary REIT dividends decline from 37% to 29.6%.



Learn more about investing in alternatives, visit

[fsinvestments.com](https://fsinvestments.com)

<sup>1</sup> Taxable-equivalent distribution rate reflects the distribution rate required under the prior tax law in order for an investor to receive the same after-tax income under the new tax law. For example, a REIT's annualized distribution rate would need to be 6.7% under the prior tax law in order for investors to receive the same amount of after-tax income as a REIT with an annualized distribution rate of 6.0% under the new tax law. Assumes a 37% tax bracket. The taxable-equivalent yield equals the after-tax yield of a REIT under the new tax law divided by (1 – tax bracket). The after-tax yield equals the distribution rate multiplied by (1 – effective tax rate). The effective tax rate is the product of an investor's tax bracket and 80%.

## **RISK FACTORS**

Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations
- local property supply and demand conditions
- ability to collect rent from tenants
- vacancies or ability to lease on favorable terms
- increases in operating costs, including insurance premiums, utilities and real estate taxes
- federal, state or local laws and regulations
- changing market demographics
- changes in availability and costs of financing
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods.

This is neither an offer to sell nor a solicitation of an offer to buy any security, which can be made only by an offering memorandum or prospectus that has been filed or registered with appropriate state and federal regulatory agencies and sold only by broker-dealers and registered investment advisors authorized to do so. An offering is made only by means of the offering memorandum or prospectus in order to understand fully all of the implications and risks of the offering of securities to which it relates. A copy of the applicable offering memorandum or prospectus must be made available to you in connection with any offering.

New legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws, and these changes may affect the taxation of a stockholder. You are urged to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments or proposals and their potential effect on an investment in a REIT.

The views expressed herein are subject to change based upon economic, real estate and other market conditions. These views should not be relied upon for investment advice. Any forward-looking statements are based on information currently available to us and are subject to a number of known and unknown risks, uncertainties and factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements.

FS Investment Solutions, LLC is an affiliate of the investment advisers to FS Investments' funds and serves or has served as the dealer manager for certain of the public offerings of shares by FS Investments' investment products.