

# Common Terms and What They Mean to Accountants

Tax Trends and What Should We Worry About





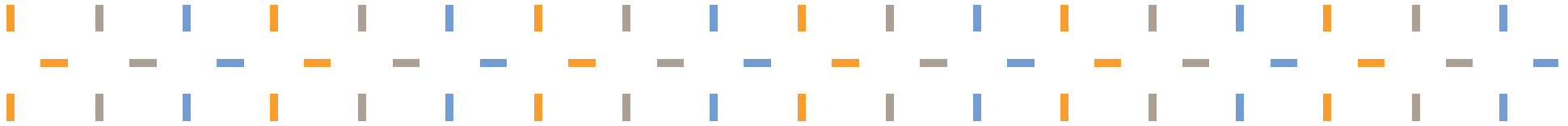
# Capitalization Rate

- Yearly Income/Total Value
  - What does income mean
    - Typically EBITDA
  - Rates vary by quality of income
  - Calculation of the payback period



# Cash on Cash Return

- Annual income/Total Investment
  - Ignores financed component for investment
  - Income only adds back depreciation and amortization
  - Income reduced by total debt service (Principal & Interest)



# Rate of Return

- Gain or Loss over a period of time
  - Includes operations
  - Includes gain on sale
- Allows for easy comparison with other types of investments



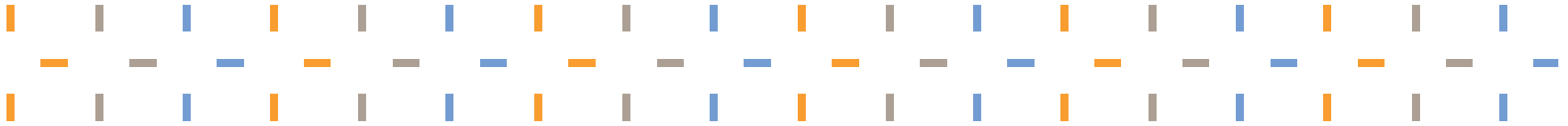
## Common Area Maintenance (CAM)

- Amounts dictated by lease for payments for owner to maintain public space
- Can include building improvements
- Typically repairs
- Additional revenue



# Like Kind Exchange

- Deferral of the recognition of taxable gain
  - Gain on old property adjusts the basis of the new property
  - The deferred gain is therefor built in to the new property
  - Can be done multiple times



# Cost Segregation Study

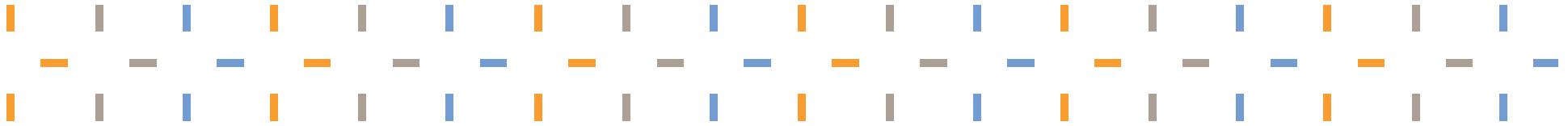
- Breaks out cost of building among the components of a building
  - Accelerate Depreciation
  - Provide additional non-cash expense



# Repair Regs

- New for 2014
  - Changes the definition of a repair for income tax
  - Allows for one time change of accounting method
  - Removes assets from higher tax on gain
  - Concept of one





## Capital Gain Rates

- Potential for seven different rates (tax simplification?)
- Medicare Surtax for some investors
- Recapture at 25% or Ordinary Income depending on Structure of the sale



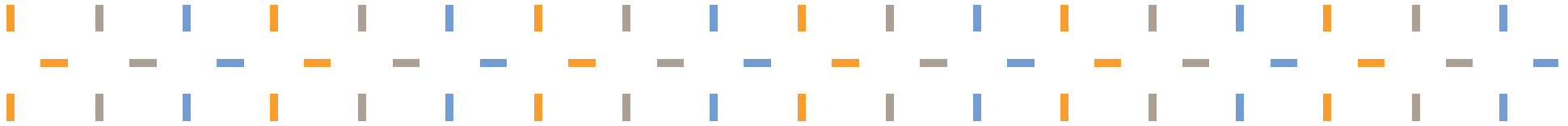
## Step up of Basis at Death

- Estate exclusion Federal \$5,430,000
- MN \$1,400,000 heading to \$2,000,000
- Cleans up negative basis problem caused by depreciation
- Original owners receive benefit of depreciation
- Heirs do not have capital gain



# Carried Interest

- In the news since 2005
- Proposed legislation in the past but never finalized
- Creator receives partnership interest for no capital investment
- Capital gain vs. Ordinary Income



## Debt Forgiveness

- Qualified Real Property Business Indebtedness
- Not available for regular corporations
- Deferral of income not exclusion
- Adjustment to basis