

Favorable Tax Treatment for REITs

GOOD NEWS FOR INVESTORS

There's good news for individual real estate investment trust (REIT) investors in the Tax Cuts and Jobs Act (TCJA) signed into law in December 2017. The TCJA introduced many new provisions and revised other provisions in the tax law, including some described here that apply to taxable years beginning after December 31, 2017, and before January 1, 2026. These changes may make REITs more compelling to investors.¹

Before & After: Effective Tax Rate Changes

A game-changer for investors is the effective tax rate reductions for dividend distributions by REITs. Here's a quick overview of the bill's impact:

UNDER PRIOR TAX LAW

- Dividend distributions by REITs are generally taxed as ordinary income, with a top federal rate on individuals of 39.6%.
- REITs do not realize taxes at the corporate level provided that all taxable income passes through to investors as dividends.
- Distributions in excess of REIT's earnings and profits are not taxable dividends. They are returns of capital (ROC) and reduce the shareholder's tax basis; any excess above basis is capital gain.²

UNDER TCJA TAX LAW

- A 20% deduction is available to non-corporate taxpayers regardless of itemization or Adjusted Gross Income on certain pass-through business income, including most REIT dividends.
- Reduced Individual tax rates for most brackets. New top individual rate of 37% (before the 20% deduction).
- The pass-through treatment (i.e., no REIT-level income tax to the extent that taxable income is distributed) remains intact.
- No change from the previous law.

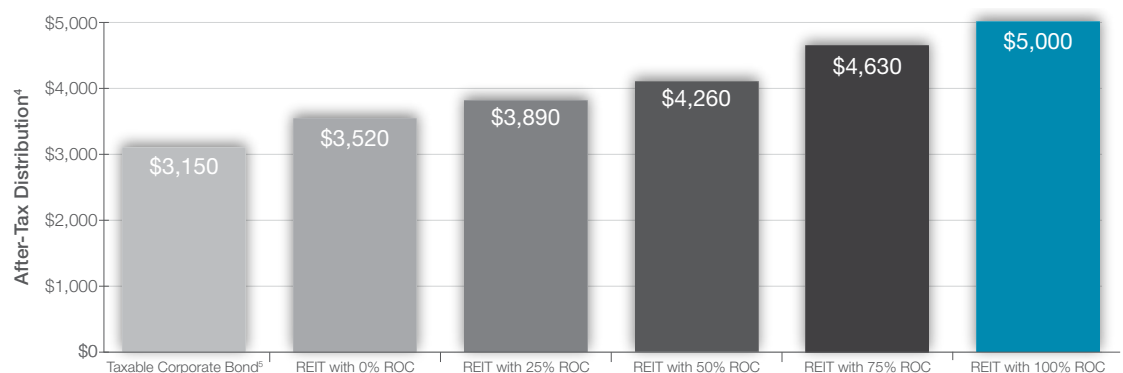
The ROC portion of a distribution provides a tax deferral to investors because it is not taxed currently. ROC distributions may result from depreciation and amortization, which may decrease the current year's taxable portion of REIT income. There may later be recapture of depreciation and amortization upon the sale of the shares as capital gain, which realize tax at a lower rate than ordinary income. However, if the shares are sold before the REIT sells the underlying depreciated property, the investor's lowered basis may give rise to greater taxable gain upon the sale of shares. ROC distributions in the early stages of a REIT may be because the REIT has not yet acquired many income-producing assets and is paying distributions that exceed operating cash flows.²

Example of Tax Benefit Under the TCJA

\$100,000 investment; 5% annualized rate of return (pre-tax); highest tax bracket of 37%

	Distribution	Taxable Portion	Tax Payable ⁴	After-Tax Distribution	Effective Tax Rate	After-Tax Distribution Rate	Tax Equivalent Distribution Rate
Taxable Corporate Bond ⁵	\$5,000	\$5,000	\$1,850	\$3,150	37.0%	3.2%	5.0%
REIT with 0% ROC	\$5,000	\$5,000	\$1,480	\$3,520	29.6%	3.5%	5.6%
REIT with 25% ROC ³	\$5,000	\$3,750	\$1,110	\$3,890	22.2%	3.9%	6.2%
REIT with 50% ROC	\$5,000	\$2,500	\$740	\$4,260	14.8%	4.3%	6.8%
REIT with 75% ROC	\$5,000	\$1,250	\$370	\$4,630	7.4%	4.6%	7.3%
REIT with 100% ROC	\$5,000	\$0	\$0	\$5,000	0.0%	5.0%	7.9%

After-Tax
Distributions
Based on a
\$100,000 Investment



This information is not intended as tax or financial advice. You should consult your tax and/or financial professional about your specific tax situation and whether or not an investment in REITs would be right for you.

¹ Enacted on December 22, 2017, generally effective for tax years beginning after December 31, 2017, but will cease to apply to tax years beginning after December 31, 2025, absent intervening legislation.

² A REIT that pays distributions in excess of cash flow will have less funds available for the acquisition of properties which may reduce an investor's overall return.

³ Tax benefits of ROC distributions are temporary and could potentially give rise to greater taxable gain upon disposition of shares.

⁴ Assumes all distributions are ordinary distributions and not capital gain distributions.

⁵ Taxable corporate bonds are debt instruments issued by corporations that pay a fixed amount of interest. Bonds are subject to interest rate risk, which refers to the risk that bond prices generally fall when interest rates rise and vice versa. Bonds are easily traded and provide ready liquidity. An investment in a traded REIT would provide ready liquidity, while an investment in a non-traded REIT would not. An investment in debt instruments, such as corporate bonds, may be secured by collateral and are repaid first should a company be liquidated, while an investment in a REIT is an investment in equity which will not be secured by collateral and the interest of shareholders of a non-traded REIT are subordinate to the REIT's lenders should a REIT be liquidated. Investments in non-traded REITs may be subject to more expenses than a direct investment in bonds, including management fees and entity-level expenses.

This is neither an offer to sell nor a solicitation of an offer to buy any securities, which can only be made by the prospectus. Neither the Securities and Exchange Commission, the Attorney General of the State of New York nor any other state securities regulator has passed on or endorsed the merits of the offering of any securities offered by Hines Securities, Inc. Any representation to the contrary is unlawful.

IMPORTANT RISK CONSIDERATIONS

Alternative investments involve a high degree of risk. You should purchase these securities only if you can afford the complete loss of your investment. Risks will vary by investment, but in general risks include, but are not limited to:

- There is not a public market for shares of alternative investments so it will be difficult for you to sell your shares and, if you are able to sell your shares, you will likely sell them at a substantial discount;
- These offerings may be conducted on a “best efforts” basis and as such, there is a risk that the program will not be able to accomplish its business objectives if substantial funds are not raised in the offering;
- The availability and timing of distributions is uncertain and cannot be assured;
- Alternative investments may offer share redemption programs; however, there are significant restrictions and limitations on your ability to have all or any portion of your shares redeemed under such programs; if redemptions occur, they may be at a price that is less than the price you paid for the shares and/or the then-current market value of the shares;
- Distributions may be paid from sources such as proceeds from debt financings, proceeds from the offering, cash advances by the advisor, cash resulting from a waiver or deferral of fees and/or proceeds from the sale of assets; distributions may exceed earnings; if distributions are paid from sources other than cash flow from operations, there will be less funds available for investment, and your overall return may be reduced;
- Alternatives offered by Hines Securities, Inc. (“Hines Securities”) may invest outside of the U.S. or in specific sectors which increases risk; in particular, international investment risks, include the burden of complying with a wide variety of foreign laws and the uncertainty of such laws, the tax treatment of transaction structures, political and economic instability, foreign currency fluctuations, and inflation; and
- Alternatives offered by Hines Securities are sponsored by Hines and these programs generally pay substantial fees to Hines and its affiliates for day-to-day operations and investment selection. These affiliates are subject to conflicts of interest.
- Alternative investments are not suitable for all investors. Please refer to the suitability standards set forth in the prospectus or offering memorandum of the particular investment.

This material contains forward-looking statements (such as those concerning investment objectives, strategies, economic updates, other plans and objectives for future operations or economic performance, or related assumptions or forecasts) that are based on our current expectations, plans, estimates, assumptions and beliefs that involve numerous risks and uncertainties. Any of the assumptions underlying the forward-looking statements could prove to be inaccurate and results of operations could differ materially from those expressed or implied. You are cautioned not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements

Hines

Hines Securities, Inc. | Dealer Manager | Member FINRA/SIPC
845 Texas Avenue | Suite 3300 | Houston, TX 77002
888.446.3773 | hinesglobalincometrust.com

NOT FDIC INSURED
MAY LOSE VALUE
NO BANK GUARANTEE