The Commercial Classroom: The impact of the new taxes on you and your clients

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New Individual Tax Rate of 39.6% for individuals with Adjusted Gross (AGI) over $400,000 and married filing jointly over $450,000.

Social security withholding from your pay check was reduced in 2010 to 4.2%: this expired December 31, 2012; the current social security withholding is now 6.2%. The wage ceiling on social security contributions has been increased to $113,700.

Affordable Care Act - Medicare taxes are currently 1.45% paid by the employer and 1.45% paid by the employee. As of January 1, employees whose wages exceed $200,000 as individuals or $250,000 as married filers will now be taxed an additional .09% on income in excess of those thresholds. There is no limit on medicare taxes.

Phase out of personal and dependent exemptions, individual taxpayers with adjusted gross income (AGI) over $250,000 or married filing jointly with AGI over $300,000, will have their personal and dependent exemptions reduced by 2% for each $2,500 over the threshold.

Phase out of itemized deductions ("Pease" Provision Limitation), individuals taxpayer with adjusted gross income (AGI) over $250,000 or married filing jointly with AGI over $300,000 will have their itemized deductions reduced by 3% of the amount of AGI over the threshold, limited to 80% of itemized deductions being reduced. Important deductions are reduced: mortgage interest, real estate property taxes, charitable giving and others. Some itemized deductions are exempt: casualty and theft losses, gambling losses and medical expense deductions. However, prior to January 1, you could deduct medical expenses that exceeded 7.5% of your AGI; now medical expenses must exceed 10% of AGI to be deductable.

Medicare Surcharge on Net Investment Income - a new 3.8% tax is due on individuals, estates and trusts if the taxpayer has Net Investment Income and adjusted gross income of $200,000 individual or $250,000 married. The tax is based on the excess AGI or the net investment income, whatever the lesser amount is. This will be the most difficult tax to apply as you must look at both Net Investment Income and the regular income of the taxpayer.

Example 1

John has a job which pays him $85,000 a year. Plus he owns a small apartment building that has gross rents of $130,000 this year. He also has expenses relating to the apartment income.

Tax Analysis

AGI from job - $85,000

Gross rents from apartment - $130,000

Less expenses* - $110,000

Net rents - $20,000

New AGI - $105,000

Under $200,000 AGI - No Tax Due
*Important note: The buildings expenses include depreciation and mortgage interest
Example 2
John and Mary are married, they file their taxes jointly; they both work and have combined income of $285,000. They own a small apartment building that has gross rents of $130,000 this year and they have expenses relating to the apartment income.
Tax Analysis
AGI from job - $285,000
Gross rents from apartment - $130,000
Less expenses - $110,000
Net rents - $20,000
New AGI - $305,000
Excess of AGI over $250,000 - $55,000
Net Investment Income - $20,000
Tax on lesser ($20,000 X .038) - $760
Plus because their combined wages exceed $250,000 they will be subject to the supplemental medicare tax on there income of $285,000.
Excess wages over $250,000 - $35,000
Medicare Tax ($35,000 X .009) - $315
Disclaimer: All taxpayers should discuss their situation with a professional tax advisor or accountant. Certain of the tax changes have specific rules and exclusions. As agents we can talk about taxes, but always refer your client to a tax professional.
Next Month: The impact of the new taxes on capital gains
Edward Smith, Jr. CREI, ITI, CIC, RECS, GREEN, MICP is the northeast regional director of Coldwell Banker Commercial NRT, Syosset, N.Y.Apartment vacancy remains tight as economic development shapes landscape in New Haven and FairfieldOn a national level, apartments led the first phase of the housing sector recovery out of the Great Recession and have turned in a stellar performance for the past four years as sales remain robust in primary markets.
Locally, the health of the apartment sector is closely tied to the fortunes of the local economy. With that in mind, expected job market improvements will spur rental housing demand and accelerate rent growth in Fairfield and New Haven counties in 2013, although additional complexes coming online will nominally raise the market-wide vacancy rate.
Overall, expanding office-using payrolls will contribute to the addition of 11,400 positions in Fairfield and New Haven counties in 2013, representing a 1.5% gain in total employment. Still, that is nearly double the 6,200 new hires made last year.
Despite the improved employment picture, apartment vacancies will trend upward a bit. After dropping for the past two years, market-wide vacancy will tick up 10 basis points to 4%. Vacancy will rise 10 basis points to 4.7% in Fairfield, but remain flat at 2.5% in New Haven - one of the country's best performing apartment markets.
Meanwhile, asking rents will advance 3.3% to $1,702 per month, outpacing the increase in 2012. Concessions will ease further, thanks to a 3.6% rise in effective rents to $1,654 per month.
New Haven County will be the steadier of the market's two counties this year. The county lacks eye-popping employment or population growth trends, but established employers continue to provide a constant source of renters to maintain tight vacancy. No rentals will be delivered in 2013,

but two projects will break ground, marking the county's first new construction in several years.

It is important to note that New Haven lost a bit of ground in Marcus & Millichap's latest annual research study, the 2013 National Apartment Report, dropping seven positions to a 30th place ranking among 44 major metro markets. This was primarily due to modest job and rent growth, along with its mid-tier vacancy rate.

Fairfield County, meanwhile, continues to cement its identity as the more dynamic of the two counties, thanks to successful initiatives to lure major employers. Recent additions to the list of corporate residents include Starwood Hotels, NBC Sports and Charter Communications, which revealed late last year that it will relocate its headquarters and 200 jobs from St. Louis to Stamford.

The relocations of hundreds of workers to the area will enlarge the Fairfield renter pool and enhance its appeal to investors. Class A complexes in the county remain sought-after, and new listings garner immediate interest at cap rates in the 5% range. Developers are expected to add 700 market-rate rentals this year, all in Fairfield County, where the property stock grew by 350 units last year.

Competition for renters from projects coming online in 2013 could emerge as a greater consideration for investors this year and perhaps moderate expectations for asset performance in the first year of ownership. Investors will continue to monitor the construction pipeline in Fairfield County. Currently totaling about 3,000 units, the advancement of any project to groundbreaking may alter underwriting criteria for existing competitive assets.

Small investors, meanwhile, continue to tap low-rate acquisition financing to make purchases in New Haven County, where cap rates for top-tier assets run from the high-5 percent to the low-6 percent range.

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