



Potentially defer taxes with non-traded REITs

In addition to the potential investment benefits, non-traded REITs may also offer several tax advantages, including the potential for tax-deferred income.

In many cases, a portion of a REIT's cash distribution may not be taxed in the year it is paid to the shareholder. This means taxation may be deferred to a later date.

If a non-traded REIT issues a stock dividend, it is not taxable income at the time it is distributed even though it may show a dollar amount on a statement.

The Added Value of Value-add REITs

Depreciation on capital expenditures for renovations, a non-cash charge, may be deducted from property income to reduce taxable income. This may be beneficial to value-add REITs when the depreciation amount outweighs the income being derived from the property portfolio.

Understanding tax advantages is an important aspect of financial planning. Specific tax treatment of non-traded REITs may provide opportunities in financial planning not available in other products.

Understanding IRS Form 1099-DIV

Typically REITs will report tax information using IRS form 1099-DIV. There are two main categories of distributions that will appear on this form:

- Return of capital (box 3)
- Ordinary distributions or regular income (box 1a)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends	OMB No. 1545-0110	2015	Dividends and Distributions
		\$	Form 1099-DIV		
		1b Qualified dividends			
		\$			
		2a Total capital gain distr.	2b Unrecap. Sec. 1250 gain	Copy B For Recipient	
		\$	\$		
PAYER'S federal identification number	RECIPIENT'S identification number	2c Section 1202 gain	2d Collectibles (e.g. %) gain	Subject to 25% "recapture tax"*	
		\$	\$		
RECIPIENT'S name		3 Nondividend distributions	4 Federal income tax	<small>This is important tax information and is being furnished to the Internal Revenue Service. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.</small>	
Street address (if different from payer's address)		\$	5 Investment expenses		
City or town, state or ZIP code			\$		
		6 Foreign tax paid	7 Foreign country or U.S. possession		
		\$			
		8 Cash liquidation distributions	9 Noncash liquidation distributions		
		\$	\$		
	FATCA filing requirement <input type="checkbox"/>	10 Exempt-interest dividends	11 Specified private activity bond interest dividends		
		\$	\$		
Account number (see instructions)		12 State	13 State identification no.		
		\$		\$	

Form 1099-DIV

In addition, when a REIT sells properties within its portfolio, the transactions may generate one of the following, which can be passed on to shareholders:

- Capital gains (box 2a)
- Recaptured depreciation – "Sec.1250" gain (box 2b)

* Subject to change.

This is not intended to be tax advice. You should consult your tax professional. Tax treatment may vary from investor to investor.

