

# Tax Cuts and Jobs Act Preserves Favorable Treatment of REIT Dividends

Annaly Capital Management, Inc. continues to analyze the overall effects of tax reform legislation, the Tax Cuts and Jobs Act (TCJA), to our operations, our industry and the economy in general. As a preliminary matter, we note the below TCJA benefits to REIT ownership. Please check with your individual tax advisor to determine how your individual tax profile is affected.

## 20% Deduction Benefit on Ordinary REIT Dividends for all Tax Brackets

- ✓ Individual shareholders will be afforded a 20% deduction on ordinary dividends from mortgage REITs
- ✓ For example, the new maximum individual effective tax rate of 37%, coupled with the 20% deduction equates to a 29.6% effective tax rate on ordinary REIT dividends as compared to 39.6% under prior law
- ✓ Ordinary REIT dividends on common and preferred shares will benefit from this tax change

		Deduction on Ordinary Dividends		Effective Tax Rate <sup>(1)</sup>	Illustrative Potential Benefit <sup>(2)</sup>
Individual Rate					
Pre TCJA	Post TCJA				
39.6%	37%	20%		29.6%	10.0%
35.0%	35%			28.0%	7.0%
33.0%	32%			25.6%	7.4%
28.0%	24%			19.2%	8.8%
25.0%	22%			17.6%	7.4%
15.0%	12%	20%		9.6%	5.4%
10.0%	10%			8.0%	2.0%

## REIT Shareholders Continue to Benefit over Other Investment Vehicles

### Corporate Structure

- ✓ The maximum 29.6% effective rate for ordinary REIT dividends is lower than the new maximum 36.8% effective rate that the same investor in a C Corporation would pay <sup>(3)</sup>

### Investment Partnerships

- ✓ Mortgage interest earned through investment partnerships may not be eligible for the 20% pass-through deduction
- ✓ Without the benefit of the pass-through deduction, the new maximum rate would be 37%

<sup>(1)</sup> For simplification purposes, this chart ignores the effect of the graduated lower tier tax brackets and focuses on the marginal rates, for illustrative purposes. It also does not factor in the 3.8% Medicare tax on net investment income which continues to apply to all dividends but is dependent on each taxpayer's specific profile.

<sup>(2)</sup> This chart assumes the hypothetical taxpayer remains in the same relative marginal tax bracket and no other factors affect that characterization.

<sup>(3)</sup> Applies a 21% federal income tax at the C Corporation level and 20% individual level tax on the qualified dividend income from that C Corporation.