Tax Advantages of REITs

REIT taxes explained

- Real Estate Investment Trust (REIT) distributions are taxed at different tax rates depending on their characterization as ordinary income, capital gains or return of capital (ROC).
- REITs do not pay US federal corporate income taxes on taxable income distributed to investors, effectively allowing investors to avoid the "double taxation" imposed on non-REIT corporations at both the corporate and individual shareholder level.
- Due to the Tax Cuts and Jobs Act (TCJA) of 2017, REIT investors benefit from a 20% rate reduction to individual tax rates on the ordinary income portion of REIT distributions paid before 2026.[1]
- Whenever appropriate, REITs can seek to minimize tax consequences of investments by executing Section 1031 exchanges and other tax deferred strategies.[2]
- When appreciated shares of a REIT are inherited, the inheritor receives the step up[3] in basis to fair market value without having to pay taxes on the appreciation.
- 1099 reporting is typically completed by end of February.

A notable advantage of REITs is the ability to pay out a portion of distributions that would otherwise be treated as ordinary income as ROC, due to real estate-related tax deductions such as depreciation and amortization.

- ROC distributions are distributions in excess of current or accumulated earnings and profits. Such distributions are not taxable to an investor to the extent they do not exceed the investor's tax basis in its shares. Rather, the ROC reduces an investor's tax basis in the year the distribution is received, and generally defers taxes on that portion of the distribution until the shares are sold.
- To the extent that a ROC exceeds an investor's tax basis, it generally will be taxable as capital gain. Such gain will be long-term capital gain if the investor has held its shares for more than one year.

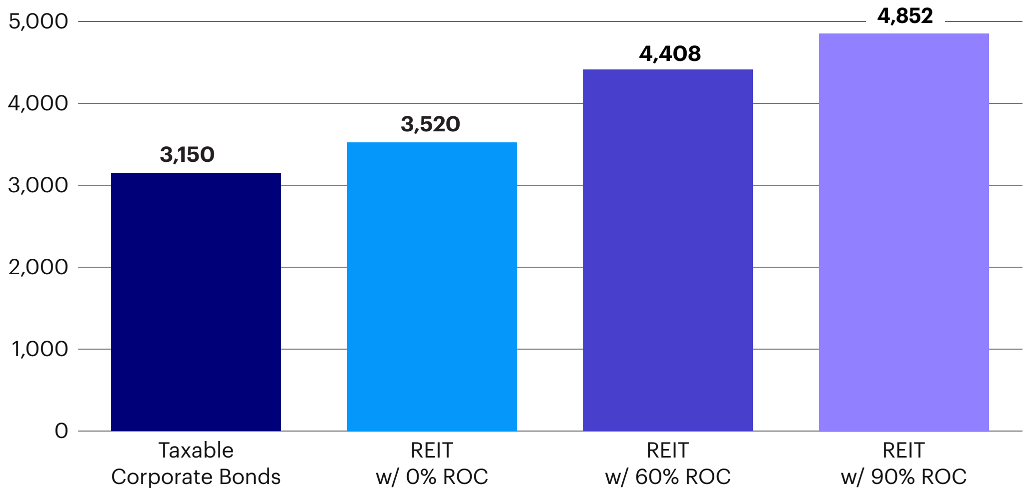
Key takeaways

Non-listed REITs offer an investor (or beneficiary of that investor) the ability to reduce, defer, or even eliminate taxes.*

- The Tax Cuts and Job Act (TCJA) of 2017 enacted a 20% tax reduction on the ordinary income portion of REIT distributions for the tax years before 2026.[1]
- The Return of Capital (ROC) distributions may possibly reduce the taxable portion of distributions by an estimated 60-90% due to real estate-related tax deductions such as depreciation and amortization.[4,5]
- REITs investors may also benefit from "double taxation" avoidance and cost basis step up[3] on inherited shares.

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

Assumes $100,000 investment; annualized pre-tax yield of 5% ($5,000 annualized distribution)[7]



Source: Invesco.

Upon sale of the REIT shares, the investor may need to pay additional taxes due to the reduction in tax basis as a result of distributions being a ROC.

Return of capital (ROC) example

As shown at right for illustrative purposes, when the applicable tax rates are combined with ROC nontaxable distributions, shown here as an estimated 60% and 90% of the total distributions, the effective federal tax rate for REITs may be reduced to 11.8% or 3.0%, respectively.[5,6]

Assumes $100,000 investment; annualized pre-tax yield of 5% ($5,000 annualized distribution)[7]

	Corporate Bonds	0% ROC	60% ROC	90% ROC
Distribution	$5,000	$5,000	$5,000	$5,000
ROC ($)	—	—	($3,000)	($4,500)
Taxable income	$5,000	$5,000	$2,000	$500
Tax rate[8]	37.0%	29.6%	29.6%	29.6%
Tax payable	($1,850)	($1,480)	($592)	($148)
After tax distribution	$3,150	$3,520	$4,408	$4,852
After tax yield[9]	3.15%	3.52%	4.41%	4.85%
Effective federal tax rate	37.0%	29.6%	11.8%	3.0%

Source: Invesco. Upon sale of the REIT shares, the investor may need to pay additional taxes due to the reduction in tax basis as a result of distributions being a ROC.

Tax Rates (Top 3 Brackets)

Tax Rate	REIT Rate Reduction	Effective Tax Rate for REITs
37%		29.6%
35%	**20%**	28%
32%		25.6%

*Taxes can be reduced due to the 20% deduction permitted on REIT distributions through 2026, deferred due to reduction in cost basis due to ROC, and eliminated due to step-up in basis upon death. A step up[3] in cost basis upon death can transfer the inherited shares to the beneficiary without tax if the beneficiary sells those inherited shares at that adjusted cost basis which would eliminate taxes on that appreciation.

1. At this time, the 20% rate deduction to individual tax rates on the ordinary income portion of distributions is set to expire on December 31, 2025.
2. Whenever you sell business or investment property and you have a gain, you generally have to pay tax on the gain at the time of sale. Section 1031 of the Internal Revenue Code of 1986, as amended (IRC), provides an exception and allows you to postpone paying tax on the gain if you reinvest the proceeds in similar property as part of a qualifying like-kind exchange. Gain deferred in a like-kind exchange under IRC Section 1031 is tax-deferred, but it is not tax-free.
3. A step-up in basis is the readjustment of the value of an appreciated asset for tax purposes upon inheritance. The asset receives a step-up in basis so that the beneficiary's capital gains tax is minimized. A step-up in basis is applied to the cost basis of property transferred at death.
4. The percent of a distribution attributed to ROC varies based on the depreciation generated by a portfolio's underlying assets. For example, a REIT portfolio that includes multifamily housing may also benefit from a higher percentage of tax-sheltered distributions due to a new accelerated depreciation schedule under the TCJA of 2017. An estimated 90% ROC is used to illustrate this point in the illustrative example shown.
5. Certain non-cash deductions, such as depreciation and amortization, lower the taxable income for REIT distributions. The 60%-90% ROC estimation reflects straight-line depreciation, which can account for approximately 50% of a REIT's distributions, assumes a 5% distribution and a 25-40year depreciable life resulting in a depreciation amount of 2.5%-4.0% annually and includes additional non-cash deductions. Upon sale of the REIT shares, the investor may need to pay additional taxes due to the reduction in tax basis as a result of distributions being a ROC.
6. The illustrative example does not include state taxes. Investors could be subject to state income tax in their state of residence which would lower the after tax yield received by the investor. The illustrative example does not reflect the impact of increasing net operating income ("NOI"); an increasing NOI from higher rents would reduce the amount of ROC. Past performance is not indicative of future results.
7. There is no assurance INREIT will pay distributions in any particular amount, if at all. Distributions may be modified and are at the discretion of the board of directors. Distributions may be funded from sources other than cash flow from operations, including, without limitation, the sale of assets, borrowings, return of capital or offering proceeds, and we have no limits on the amounts we may pay from such sources.
8. This is the highest tax rate due to the 20% REIT rate reduction from TCJA of 2017. See "Tax Rate (Top 3 Brackets)" table.
9. After tax yield is reflective of the current tax year which does not take into account other taxes that may be owed on an investment in INREIT when the investor redeems their shares. Upon redemption, the investor may be subject to higher capital gains taxes as a result of a depreciating cost basis due to the return of capital distributions.

Summary of risk factors

Invesco Real Estate Income Trust Inc. (INREIT) is a non-listed REIT that invests in stabilized, income-oriented commercial real estate in the United States. To a lesser extent, INREIT also invests in real estate-related securities to provide current income and a source of liquidity for its share repurchase plan, cash management, and other purposes. This investment involves a high degree of risk and is intended only for investors with a long-term investment horizon and who do not require immediate liquidity or guaranteed income. If INREIT is unable to effectively manage the impact of the risks inherent in its business, it may not meet its investment objectives. You should only invest in INREIT if you can afford a complete loss of your investment. You should read the Prospectus carefully for a description of the risks associated with an investment in INREIT. The principal risks relating to an investment in INREIT include, but are not limited to the following:

- INREIT has a limited prior operating history, and there is no assurance that it will successfully achieve its investment objectives.
- INREIT has made limited investments to date, and you will not have the opportunity to evaluate INREIT's future investments before it makes them, which makes your investment more speculative.
- Since there is no public trading market for shares of INREIT's common stock, repurchase of shares by INREIT will likely be the only way to dispose of your shares. INREIT's share repurchase plan will provide stockholders with the opportunity to request that INREIT repurchases their shares on a monthly basis, but INREIT is not obligated to repurchase any shares and may choose to repurchase only some, or even none of the shares that have been requested to be repurchased in any month. In addition, repurchases will be subject to available liquidity and other significant restrictions. Further, INREIT's board of directors may make exceptions to, modify, or suspend its share repurchase plan. As a result, INREIT's shares should be considered as having only limited liquidity and at times may be illiquid. Your ability to have your shares repurchased through INREIT's share repurchase plan is limited, and if you do sell your shares to INREIT, you may receive less than the price you paid.
- INREIT cannot guarantee that it will make distributions, and if it does it may fund such distributions from sources other than cash flow from operations, including, without limitation, the sale of or repayments under INREIT's assets, borrowings, or offering proceeds, and INREIT has no limits on the amounts it may pay from such sources.
- The purchase price and repurchase price for shares of INREIT's common stock will generally be based on the prior month's NAV and will not be based on any public trading market. While there will be independent valuations of INREIT's properties quarterly, the valuation of properties is inherently subjective, and INREIT's NAV may not accurately reflect the actual price at which its properties could be liquidated on any given day.
- INREIT has no employees and is dependent on Invesco Advisers, Inc. ("Adviser") to conduct its operations. The Adviser will face conflicts of interest as a result of, among other things, the allocation of investment opportunities among INREIT and Other Invesco Accounts (as defined in the Prospectus), the allocation of time of its investment professionals and the substantial fees that INREIT will pay to the Adviser.
- INREIT is conducting a "best efforts" offering. If INREIT is not able to raise a substantial amount of capital on an ongoing basis, its ability to achieve its investment objectives could be adversely affected.

- Principal and interest payments on any borrowings will reduce the amount of funds available for distribution or investment in additional real estate assets.
- There are limitations on the ownership and transferability of INREIT's shares. No person or group may directly or indirectly acquire or hold more than 9.9% of INREIT's outstanding common stock in value or number of shares of all classes or series, whichever is more restrictive. An investment in INREIT is not a direct investment in real estate. See "Description of Capital Stock – Restrictions on Ownership and Transfer" in the prospectus for more information.
- INREIT does not own the Invesco name but is permitted to use it as part of INREIT's corporate name pursuant to a trademark license agreement with an affiliate of Invesco. Use of the name by other parties or the termination of INREIT's trademark license agreement may harm its business.
- If INREIT fails to qualify as a REIT and no relief provisions apply, its NAV and cash available for distribution to its stockholders could materially decrease.
- Events or the conditions beyond INREIT's control, including outbreaks of contagious disease such as the global pandemic of the novel coronavirus that causes the disease known as coronavirus disease 2019 ("COVID-19"), may have an adverse impact on INREIT's NAV, results of operations and cash flows and INREIT's ability to source investments, obtain financing, fund distributions and satisfy repurchase requests.
- Accurate valuations are more difficult to obtain in times of low transaction volumes due to fewer market transactions that can be considered in the context of the appraisal. There will be no retroactive adjustment in the valuation of assets, INREIT's offering price of its common stock shares, the price INREIT paid to repurchase its common stock or NAV-based fees INREIT paid to the Adviser and the Dealer Manager to the extent valuations prove to not accurately reflect the realizable value of INREIT's assets. The price you will pay for shares of INREIT's common stock and the price at which shares may be repurchased will generally be based on the prior month's NAV per share. As a result, you may pay more than realizable value or receive less than realizable value for your investment.
- INREIT may be subject to adverse legislative or regulatory tax changes that could increase its tax liability, reduce its operating flexibility and reduce the price of INREIT common stock. We cannot assure you that the Tax Cuts and Jobs Act, the CARES Act or any future changes will not adversely affect the taxation of INREIT's stockholders. Any such changes could have an adverse effect on an investment in INREIT or on the market value or the resale potential of INREIT's assets. You are urged to consult with your tax advisor with respect to the impact of these legislative changes on your investment in INREIT and the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of INREIT common stock.

Important information

All information is as of June 2021. This tax information is provided for informational purposes only, is subject to material change, and should not be relied upon as a guarantee or prediction of tax effects. This material also does not constitute tax advice to, and should not be relied upon by, potential investors, who should consult their own tax advisors regarding the matters discussed herein and the tax consequences of an investment.

Forward-looking statement disclosure

This material contains forward-looking statements about INREIT's business, including, in particular, statements about its plans, strategies, and objectives. You can generally identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar words. These statements include INREIT's plans and objectives for future operations, including plans and objectives relating to future growth and availability of funds, and are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to these statements involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to accurately predict and many of which are beyond INREIT's control. Although INREIT believes the assumptions underlying the forward-looking statements, and the forward-looking statements themselves, are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that these forward-looking statements will prove to be accurate, and INREIT's actual results, performance, and achievements may be materially different from that expressed or implied by these forward-looking statements. In light of the significant uncertainties inherent in these forward-looking statements, the inclusion of this information should not be regarded as a representation by INREIT or any other person that INREIT's objectives and plans, which are considered to be reasonable, will be achieved.

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