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Big Beautiful Bill Breakdown: Tax Opportunities for Real Estate Investors

THE TRIFECTA

Strategic Tax / Asset Protection /Succession/Estate Plan
("Trifecta")

Wage/Self-employment/Earned Income ("Left Side")

Passive Income/Losses (Assets, Rental Properties & Passive K-1 Investments) ("Right Side")

Revocable Living Trust (RLT)("Foundation")

YOUR FOUNDATION: ESTATE PLAN

- The federal estate, gift, and Generation-Skipping Transfer tax exemptions are permanently increased to $15 million per individual ($30 million for married couples), effective January 1, 2026.

- Indexed for inflation starting in 2027.

- TCJA: Would have reduced the exemption to approximately $7 million per person.

LEFT SIDE: SELF-EMPLOYMENT INCOME

- Earned/Operational Income
    - Real Estate Agent
    - Property Management Company
    - Consulting
    - Wholesaling, Fix and Flips
    - Real Estate Development
    - NOT buy and hold rental property- unless hotel like services (daily cleaning/breakfast)
- Income subject to Self-Employment Tax- Social Security and Medicare 15%
- Qualifying income for Solo 401(k)

QBI: QUALIFIED BUSINESS INCOME (199A DEDUCTION)

- Trade or business requiring regular, continuous, substantial activity with a profit motive.

- Permanent 20% QBI deduction (IRC 199A) for pass-through entities (LLCs, partnerships, S corps).

  - Developer’s single-member LLC earns $100,000 net income
  - QBI deduction: 20% of $100,000 = $20,000

FEDERAL TAX RATES & STANDARD DEDUCTION

- TCJA: The TCJA established 10%, 12%, 22%, 24%, 32%, 35%, and 37%. These were set to expire after 2025, reverting to pre-2017 rates (e.g., 39.6% top rate).

- OBBBA Change: The OBBBA makes these TCJA rates permanent, ensuring the top rate stays at 37% and brackets continue to adjust for inflation annually. OBBBA also makes the Capital Gain rates permanent (0%, 15%, 20%).

- TCJA also increased the standard deduction and OBBBA made those increases permanent and will continue to adjust for inflation annually (+ extra standard deduction amount for those 65+)

RIGHT SIDE: PASSIVE INCOME

- Passive Income/Losses

- Buy and Hold Assets
    - Rental Properties
    - Note Investing- considered passive as long as not charging extra “bank fees”, points and interest are OK
    - Syndications

- Income NOT subject to Self-Employment Tax- not eligible for solo 401(k)

BONUS DEPRECIATION

- TCJA of 2017 implemented a phase-down to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027.

- OBBBA Change: The OBBBA restores 100% bonus depreciation for qualified property placed in service after January 19, 2025, and makes it permanent, eliminating the phase-down schedule.

- Applies to new and used property with a recovery period of 20 years or less (e.g., equipment, vehicles, interior improvements).
    - Excludes real property itself (e.g., land or buildings) but includes depreciable assets used in real estate businesses.

REAL ESTATE PROFESSIONAL

- To qualify as a real estate professional in a given year, you must: (A) work 750+ hours in a real property trade or business that you own 5% or more of (e.g., construction or even simply managing your own rentals), AND, (B) work in that/those real property trade(s) or business(es), MORE than anything else you do.

SHORT-TERM RENTAL LOOPHOLE

- The average stay of the guests at that property is seven days or less, BUT only for the year in which you're trying to claim the losses against your other income.

- To the extent you or family members (siblings, parents, kids) are going to stay there (even if paying for it), you must make sure it is less than the greater of 14 days or 10% of days rented (repair days don't count against you).

MATERIAL PARTICIPATION

- 500 or more hours for the year;
- 100 or more hours for the year and more hours than anyone else with respect to that property; or
- You provided substantially all of the material participation for that year.

“DASH 4” LOOPHOLE

- Only available to a Business Owner who owns their own business/commercial location (versus renting from a commercial landlord).

- The ownership in the real estate (the warehouse, suite, office, etc.) must have identical ownership to the business.

COST SEGREGATION

- Identifies and reclassifies real estate components to accelerate depreciation deductions, assigning shorter recovery periods (5-year, 7-year, or 15-year) to assets like fixtures, equipment, or land improvements, instead of the standard 27.5-year (residential) or 39-year (commercial) schedules.

- 100% Bonus depreciation!!

QUALIFIED OPPORTUNITY ZONE/FUND

- Current program ends December 31, 2026.

- OBBBA Change: New program starts January 1, 2027. 5 year deferral with 10% discount, 10 year hold of new property, 30 year hold of new property.

- Sam sells business and puts gain into QOZ on January 1, 2027. In 2032, Sam must pay original capital gain but gets a 10% discount (pays taxes on 90% of original capital gains instead of 100%). If Sam holds, and substantially improves, that new property over 10 years, Sam can sell the new property without incurring any capital gains by making an election. If Sam decides to hold the property for 30 years, he gets stepped up basis and can sell the property at FMV and incur no capital gains.

STATE AND LOCAL TAX (SALT) DEDUCTION

- The SALT deduction cap is raised from $10,000 to $40,000 per household beginning 2025 until 2029 when it reverts back to $10,000 in 2030. Also, the $40,000 cap is lowered for incomes above $500,000 and by $600,000 MAGI the cap is back to $10,000.

PASS-THROUGH ENTITY TAX (PTET)

- The pass-through entity tax (PTET) is a state-level workaround allowing certain pass-through businesses (like partnerships and S corporations) to pay the state income taxes on their business return as a specified income tax payment and getting the deduction at the entity level, and thus bypassing the SALT CAP.
- You can use PTET to pay your state income taxes and still deduct your property taxes via the SALT CAP.

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Ready to get started? Use this QR Code to book an appointment, and we will help you pay less taxes and keep your assets protected.