

## Enhancing After-Tax Real Estate Returns: Bonus Depreciation, 1031 Exchanges, and Portfolio Planning Considerations

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### Quick Summary

- **Accelerated Tax Timing:** Recent U.S. tax legislation restoring 100% first-year bonus depreciation significantly enhances the ability of real estate investors to accelerate deductions and improve early after-tax cash flow.
  - **Preservation of Core Real Estate Tools:** The continuation of Section 1031 like-kind exchanges, improved interest deductibility, and permanent treatment of several incentive programs reinforce real estate's long-standing tax advantages.
  - **Planning Over Promotion:** These provisions primarily affect the *timing* of taxation rather than its elimination, increasing the importance of coordinated tax, financing, and exit planning for long-term investors.
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### Executive Overview

Recent changes to U.S. tax law have materially reshaped the after-tax profile of real estate investing. The reinstatement of **100% first-year bonus depreciation** for qualifying assets placed in service after January 19, 2025, combined with the preservation of established real estate provisions, represents one of the most consequential tax developments for the asset class in years.

These changes may improve early-period cash flow, enhance flexibility around refinancing and exit decisions, and strengthen real estate's relative attractiveness compared to many traditional asset classes whose tax treatment remains largely unchanged. While legislative frameworks are inherently subject to future change, the current environment provides investors and advisors with greater clarity for underwriting, portfolio construction, and long-term planning.

This paper examines the most relevant tax provisions affecting real estate, their practical implications for after-tax returns, and key considerations for financial advisors working with accredited investors.

**Sources and Credit to: [29th Street Capital](#)**

## Key Tax Provisions Affecting Real Estate

### 100% First-Year Bonus Depreciation

The permanent restoration of full bonus depreciation allows qualifying components identified through cost segregation studies—such as certain interior systems, fixtures, and site improvements—to be deducted entirely in the year they are placed in service.

Compared with prior phased-down regimes, this acceleration shifts a larger portion of depreciation into earlier years of ownership. For investors with sufficient taxable income, this may materially reduce reported income during the initial hold period and improve near-term cash flow. Importantly, accelerated depreciation increases depreciation recapture exposure at disposition, reinforcing the need for full-cycle tax analysis.

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### Section 1031 Like-Kind Exchanges

Section 1031 exchanges remain a central pillar of real estate tax planning. By reinvesting proceeds from the sale of an investment property into qualifying replacement property, investors may defer capital gains taxes and depreciation recapture, subject to strict timing and structural requirements.

For long-term investors, 1031 exchanges allow capital to remain fully deployed, support portfolio repositioning, and defer tax recognition across multiple investment cycles. While taxes are deferred rather than eliminated, this continuity can meaningfully affect long-term compounding.

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### Interest Deductibility and Related Provisions

Additional provisions relevant to real estate investors include:

- Restoration of **interest deductibility based on EBITDA**, benefiting capital-intensive businesses
- Permanent status of the **20% Qualified Business Income (QBI) deduction**
- Continued support for **Opportunity Zones, Low-Income Housing Tax Credits (LIHTC), and New Markets Tax Credits (NMTC)**
- A temporary increase in the **State and Local Tax (SALT) deduction cap**, with scheduled phasedowns

Together, these provisions influence after-tax cash flow and underwriting assumptions, particularly for investors in higher-tax jurisdictions.

**Summary Table: Key Provisions Before and After Recent Legislation**

**Selected Tax Provisions Relevant to Real Estate Investors**

Provision	Prior Law (2024)	Current Law (Post-2025)	Primary Beneficiaries
<b>Bonus Depreciation</b>	60% and phasing down	100% first-year, permanent	Investors using cost segregation
<b>Section 1031 Exchanges</b>	Allowed for real property	Preserved; potential expansion	Long-term real estate investors
<b>Interest Deductibility (163(j))</b>	Based on EBIT	EBITDA basis restored	Capital-intensive businesses
<b>Opportunity Zones</b>	Scheduled phase-out	Made permanent	Long-term community investors
<b>SALT Deduction Cap</b>	\$10,000	Increased to \$40,000 (temporary)	Investors in high-tax states

This table is intended for educational purposes and reflects high-level legislative provisions. Actual applicability depends on individual circumstances.

**Practical Implications for Advisors**

The combined effect of these provisions primarily impacts **the timing of taxation**, not the ultimate tax burden. Accelerated deductions may increase early cash flow and internal rates of return, but they also elevate the importance of:

- Coordinating depreciation and exit strategies
- Evaluating refinancing versus disposition timing
- Integrating real estate planning within broader portfolio and estate strategies

For advisors, these changes underscore the value of disciplined underwriting and proactive tax coordination rather than transactional decision-making.

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### **Strategic Considerations for Financial Advisors**

Advisors working with accredited investors should consider:

- **Holistic Planning:** Tax benefits should be evaluated alongside operating fundamentals, leverage, liquidity needs, and long-term objectives.
  - **Client Suitability:** Accelerated depreciation and exchange strategies are not appropriate for all investors.
  - **Professional Coordination:** Cost segregation studies, exchange execution, and depreciation planning require collaboration among tax, legal, and investment professionals.
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### **Conclusion**

Recent tax law changes reinforce real estate's position as a structurally tax-advantaged asset class by enhancing depreciation benefits, preserving exchange mechanisms, and improving planning clarity. While these provisions may improve after-tax outcomes and early cash flow, they also heighten the importance of prudent execution and long-term planning.

For financial advisors and accredited investors, the current framework presents an opportunity to improve tax efficiency—provided strategies are implemented thoughtfully, compliantly, and with a clear understanding of their long-term implications.

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### **Sources**

This white paper is informed by publicly available research and commentary, including:

- [29th Street Capital](#)
- *Axios – Markets React to Fed Uncertainty Amid Leadership Speculation*
- *AP News – Fed Beige Book Shows Slight Economic Growth, Inflation Concerns Persist*

- Kidder Mathews – *Big Beautiful Bonus Depreciation Discussion*
  - Urban Land Institute – *What the Big Beautiful Bill Means for Commercial Real Estate and Housing*
  - JD Supra – *The One Big Beautiful Bill: What CRE Owners Need to Know*
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  - Goodwin Procter LLP – *Tax Highlights Related to Real Estate*
  - KBKG – *100% Bonus Depreciation Permanent Under OBBBA*
  - Tax Foundation – *Pros and Cons of the One Big Beautiful Bill*
  - Stinson LLP – *One Big Beautiful Bill Explained*
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### **Combined Disclosures**

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