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FREE GUIDE · FOR REAL ESTATE INVESTORS

The Real-Estate Investor's Tax Playbook

The deductions and strategies most investors miss — and most generalist preparers never mention — in plain English.

WHAT'S INSIDE

- The depreciation you don't get to skip — and how to catch up years you missed
- Cost segregation + 100% bonus depreciation (back, and now permanent)
- The repair-vs-improvement safe harbors that let you deduct now
- Passive losses, real estate professional status, and the short-term rental loophole
- The 20% QBI deduction on your rental profit
- 1031 exchanges, entity structure, and the Augusta Rule
- A one-page deduction checklist

By the team at CPA Gurus — CPAs who own rental property. **cpa-gurus.com**

Most real-estate investors overpay their taxes. Not because they're careless — because the person preparing their return treats a rental like a hobby with a mortgage, plugs in the numbers, and moves on. The strategies below are where the real money is. None of this is exotic or aggressive; it's the standard toolkit for investors who work with a CPA who actually understands real estate. Read it, then talk to us about which pieces fit your situation.

01 Depreciation: the deduction you don't get to skip

A residential rental building depreciates over 27.5 years, straight-line (**§167**, **§168**) — roughly 3.6% of your building basis, back to you as a deduction every year. Here's what stings: under the "allowed *or allowable*" rule (**§1016(a)(2)**), the IRS reduces your basis for depreciation whether or not you claimed it. Skip it and you still pay the tax at sale — you just never got the deduction.

> **The catch:** If you've under-depreciated for two or more years, you can't just amend. You file Form 3115 and catch up every missed year at once as a single deduction (a §481(a) adjustment). We have a full guide on this.

Authority: §167, §168, §1016(a)(2); Form 3115 automatic change DCN 7 under Rev. Proc. 2015-13.

02 Cost segregation + bonus depreciation

A cost-segregation study breaks your property into components — appliances, flooring, fixtures, land improvements — that depreciate over 5, 7, or 15 years instead of 27.5, pulling deductions forward. Paired with **bonus depreciation**, the short-life pieces can often be written off immediately. Under the One Big Beautiful Bill Act (OBBBA, 2025), 100% bonus depreciation is back and now **permanent** for qualifying property acquired after January 19, 2025 (**§168(k)**).

> **The catch:** The building itself (27.5-year property) never gets bonus — only the shorter-life components a study identifies. And accelerating depreciation increases recapture when you sell. It's timing, not free money — but usually a strong win.

Authority: §168(k) (OBBBA 2025); cost segregation per the tangible property regulations and MACRS class lives.

03 Repairs vs. improvements — the safe harbors

Improvements get capitalized and depreciated; repairs get deducted now. The tangible property regulations give you three safe harbors that let you deduct more, sooner: the **de minimis safe harbor** (expense items up to $2,500 per invoice/item with a policy in place), the **routine maintenance safe harbor**, and the **small-taxpayer safe harbor** (deduct improvements up to the lesser of $10,000 or 2% of the building's basis, for buildings under $1M).

> **The catch:** The de minimis safe harbor needs a written capitalization policy in place at the start of the year. Set it up before you need it.

Authority: Reg. §1.263(a)-1(f) (de minimis); Reg. §1.263(a)-3(i) (routine maintenance); Reg. §1.263(a)-3(h) (small taxpayer).

04 Passive losses & real estate professional status

Rental losses are generally **passive** (**§469**), meaning they only offset passive income — the rest suspend until you have passive income or sell. The big exception is **real estate professional status (REPS)**: if you spend more than 750 hours and more than half your total working time in real property trades or businesses, and you materially participate, your rental losses can become non-passive and offset your other income.

> **The catch:** REPS is fact-intensive and heavily audited. It lives or dies on a contemporaneous time log. If you claim it, keep one — a reconstruction after the fact rarely holds up.

Authority: §469; §469(c)(7) (real estate professional); material participation tests under Reg. §1.469-5T.

05 The short-term rental “loophole”

If the average guest stay is seven days or less, the activity isn't a “rental activity” under the passive rules at all (Reg. §1.469-1T(e)(3)(ii)). Materially participate in it — and you don't need REPS to do so — and the losses can be **non-passive**, usable against your other income. This is why a self-managed short-term rental with a cost-seg study can generate a large first-year deduction against W-2 or business income.

> **The catch:** It hinges on the average-stay math and on you actually materially participating. Hand it to a full-service property manager and the argument weakens fast.

Authority: Reg. §1.469-1T(e)(3)(ii); material participation under Reg. §1.469-5T; interacts with §168(k) bonus.

06 The 20% QBI deduction on your rental

If your rental rises to the level of a trade or business, its net income can qualify for the **§199A** qualified business income deduction — 20% off the profit, straight off your taxable income. The IRS gives a rental safe harbor (250+ hours of rental services, separate books, contemporaneous records) to help rentals qualify.

> **The catch:** Not every passive rental qualifies, and depreciation reduces the QBI it applies to. But when it fits, 20% off is among the largest deductions in the code.

Authority: §199A; rental safe harbor under Rev. Proc. 2019-38. Made permanent by OBBBA (2025); 20% rate retained, wider phase-in ranges and a $400 minimum for material participants, effective tax years beginning after 12/31/2025.

07 1031 exchanges — defer the gain

Sell an investment property, roll the proceeds into another “like-kind” investment property through a qualified intermediary, and you defer the capital gain and depreciation recapture (**§1031**). Real property only, post-2017. The clock is strict: identify the replacement within **45 days** and close within **180 days**.

> **The catch:** Miss a deadline by a day and the whole exchange fails and becomes taxable. Line up the intermediary before you close the sale — you can't touch the cash in between.

Authority: §1031 (real property only post-TCJA); 45-day identification / 180-day completion.

08 Entity structure — LLC vs. S-corp

An LLC gives you liability protection and, for a rental, is usually taxed the same as owning it directly — no magic, but no harm. Putting **appreciating rental property inside an S-corp is usually a mistake** (it complicates distributions and can trap gain). Where an S-corp can help is the *active* side of a real-estate business — flipping, wholesaling, agent or management income — where it can cut self-employment tax on the profit above a reasonable salary.

> **The catch:** Match the entity to the activity, not the other way around. And watch the self-rental rules if you rent property to your own business.

Authority: Subchapter S (§1361–1368); self-rental under Reg. §1.469-2(f)(6); reasonable compensation for S-corp owners.

09 The Augusta Rule

Rent your personal home to your business for **14 days or fewer** a year — for legitimate meetings, planning sessions, shoots — and that rental income is **tax-free to you**, while the business deducts it (**§280A(g)**).

> **The catch:** It has to be a real business use at a defensible market rate, documented with an invoice and minutes. Fifteen days and the exclusion is gone entirely.

Authority: §280A(g) (the "14-day" or Augusta rule); requires documented business purpose and fair rental value.

QUICK-REFERENCE

The deduction checklist

- Depreciation claimed every year — and caught up if you missed years (Form 3115)
- Cost-segregation study considered on higher-basis properties
- Bonus depreciation on qualifying short-life components
- Written de minimis capitalization policy in place ($2,500/item)
- Repairs expensed; only true betterments capitalized
- Mortgage interest, property tax, insurance, HOA
- Property management, leasing, and advertising costs
- Travel and mileage to and from properties (logged)
- Home-office for the rental business, if you qualify
- Legal, accounting, and professional fees
- Real estate professional status evaluated (with a time log)
- Short-term rentals: average-stay and material-participation tested
- §199A 20% QBI deduction evaluated
- 1031 exchange considered before any sale
- Basis and improvement records kept per property

CURRENT-LAW CHECK — AS OF AUGUST 2026

Bonus depreciation: 100% and permanent under OBBBA for qualifying property acquired after 1/19/2025 (§168(k)).

QBI (§199A): Made permanent by OBBBA; 20% rate retained, wider phase-in ranges and a $400 minimum deduction for material participants, effective for tax years beginning after 12/31/2025.

Everything here: US federal income tax, general information. Rules and dollar thresholds change and are fact-dependent — verify before acting.

READY TO STOP OVERPAYING?

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