



Real estate industry tax planning after the One Big Beautiful Bill Act

Implications for family offices and private investors



Family offices and private investors often invest in real estate, seeking a stable, diversified, tax-efficient income stream and the potential for long-term appreciation. With the passing of the One Big Beautiful Bill Act (OB3) reshaping this landscape, the KPMG *Family Office Fridays* series offered a special webcast in collaboration with the Real Estate Tax Chat Series to explore certain of the more significant changes.



Bonus depreciation and interest deductions

OB3 restored 100 percent bonus depreciation for qualified property placed in service after January 19, 2025. Under the tax law prior to OB3, bonus depreciation was phased out, with the applicable percentage of 40 percent immediate write-off for 2025, heading to a percentage of zero by 2027. The new rules under OB3 make 100 percent bonus depreciation permanent.

OB3 also improved section 163(j) business interest limitation by reverting to a more favorable calculation method. Adjusted taxable income now excludes depreciation, amortization, and depletion—meaning the potential for less interest expense disallowance under section 163(j).

Some taxpayers who previously elected out of section 163(j) to preserve interest deductions may find that election to be less valuable under the new rules. Taxpayers should review their current structure when planning for future real estate acquisitions.



Passive losses and real estate professional status

For family offices with significant real estate holdings, qualifying as a real estate professional (REP) can convert certain passive losses into deductions against ordinary income. But the calculus is not always straightforward and planning matters. Rental income that is not sheltered by REP status remains passive, and passive income may have its own strategic uses.



Sometimes passive treatment is preferable. Family offices with substantial passive losses from other investments may benefit from keeping rental income passive to absorb those losses. Similarly, those purchasing energy credits, which are passive, may benefit from sources of passive income.



Qualified Opportunity Zones: Timing gains for QOZ 2.0

The original Qualified Opportunity Zone (QOZ) program established under the Tax Cuts and Jobs Act (TCJA) was set to hit its deferral deadline at the end of 2026. OB3 made the program permanent and added certain additional benefits (QOZ 2.0).

Under the TCJA version of QOZ, any capital gains deferred under the program must be recognized by the deferring taxpayer on December 31, 2026, creating a diminishing return of the benefit of the program under the original version, with each subsequent year. Under QOZ 2.0, for deferred gains after January 1, 2027, investors can defer gains for five years from the investment date, creating a rolling deferral opportunity, in addition to other enhanced benefits that will make the program more attractive for many taxpayers.



Practical consideration: If you have flexibility on when to recognize a capital gain, capital gains recognized in 2027 (as compared to 2026) may unlock significant deferral and gain exclusion benefits (if a qualifying investment made during the requisite time periods under the new QOZ 2.0 program).

Another significant benefit for real estate is that after 10 years investors can elect to step up their QOF investment basis to fair market value with no depreciation recapture.



SALT and pass-through entity taxes

The state and local tax deduction cap increased to \$40,000 under OB3, though it phases down to \$10,000 as modified adjusted gross income exceeds \$500,000. For high-income taxpayers, elective pass-through entity taxes remain advantageous, as the deduction at the entity level may bypass the deduction cap entirely. State conformity varies and with the federal SALT cap set to expire after 2029, expect continued evolution in how states approach these workarounds.

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