*BMSS Presents:*

# A REAL ESTATE INDUSTRY UPDATE

Time:
**8:30 A.M. to 9:30 A.M. (CDT)**

Date:
**Tuesday, July 14**

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Alan Duncan, CPA

Ross Mendheim, CPA

Sarah Shirley

# Real Estate Tax Update

OBBBA Changes, Live Deadlines & What's Still Evergreen

Sarah Shirley, Tax Supervisor

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# What We'll Cover

## The OBBBA Refresher

Bonus depreciation, Section 179, QBI, and a few quick hits – plus a state-by-state conformity check.

## Qualified Production Property

The new "manufacturing deduction" and what it means for real estate LLCs.

## Deductions You May Be Missing

Everyday overlooked items – plus a few genuine surprises.

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# The One Big Beautiful Bill Act

Signed July 4, 2025 – A Quick Refresher

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# Bonus Depreciation: Now Permanent

### 100% First-Year, Permanently

§168(k) reverses the scheduled phase-down (40% in 2025 -> 20% in 2026 -> 0% in 2027 under prior law). Applies to property acquired AND placed in service after January 19, 2025.

### The Written Binding Contract Trap

Acquisition date is generally when a binding contract was signed – not the closing or placed-in-service date. A contract signed before 1/20/2025 locks in the old 40% rate, even if placed in service later.

### The "10% Rule" for Ground-Up Construction

If more than 10% of expected costs were incurred before 1/20/2025, old rules apply. "Incurring" costs includes accrual under your accounting method – not just physical work.

### Cost Segregation Is Worth More Than Ever

A cost seg study identifies the 5/7/15-year components inside a 27.5-or 39-year building. At permanent 100%, every dollar reclassified is fully deductible in year one.

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# Section 179 vs. Bonus Depreciation

## Section 179 – Control

- Elective, asset-by-asset
- Cannot exceed business taxable income (no loss creation)
- 2025: $1.25M limit / $3.13M phase-out
- 2026: $2.56M limit / $4.09M phase-out
- Applied first
- Lets you dial in exactly how much to deduct – useful for managing the excess business loss limitation

## Bonus Depreciation – Scale

- Automatic by asset class unless elected out
- No income cap – can create or increase an NOL
- No dollar cap at all
- Applied second, to remaining basis
- Some states that decouple from bonus still conform to Section 179

# QBI / Section 199A – Made Permanent

### Permanent Now

No longer sunsetting 12/31/2025. 20% deduction rate is unchanged.

### Wider Phase-In Ranges

2026: $75,000 single (up from $50,000) / $150,000 MFJ (up from $100,000).

### New Minimum Deduction

§199A(i): guaranteed floor for taxpayers with modest QBI who materially participate.

**20%** deduction rate, unchanged

**$403.5K** 2026 MFJ phase-in start

**$400** new 2026 minimum deduction

***2026 thresholds: $201,750 single / $403,500 MFJ phase-in start; $276,750 / $553,500 phase-in end. [Rev. Proc. 2025-32]***

# Quick Hits & the 1031 Status Report

## SALT Deduction Cap

Raised to $40,000 (MFJ) through 2029, phasing back to $10,000 in 2030.

## Estate & Gift Tax Exemption

Made permanent at $15 million per person / $30 million per couple (2026, indexed thereafter).

## Section 1031 – Untouched

No changes to the 45-day identification / 180-day exchange deadlines, the QI requirement, or the real-property-only limitation. Clients ask every year – good news to confirm.

## A 1031 + Bonus Depreciation Nuance

On a replacement property, only the "excess basis" (new money beyond carryover basis) is eligible for 100% bonus via cost segregation. Carryover basis keeps its existing schedule.

# Qualified Production Property

The New "Manufacturing Deduction" – and What It Means for Landlords

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# Qualified Production Property (§168(n))

**100%**

immediate expensing deduction

for the portion of

nonresidential real property

used as an integral part of a

Qualified Production Activity

*Historically, this class of property was depreciated over 39 years straight-line.*

### What Doesn't Qualify

Office, admin, lodging, parking, sales, R&D, and software-engineering space in the same building – only the production footprint itself.

### Timing Window – Option 1:

New construction: Construction began after 1/19/2025 and before 1/1/2029; placed in service before1/1/2031.

### Timing Window – Option 2:

Purchased/Acquired Properties: To qualify, property cannot have been used for a qualifying production activity during lookback period of January 1st, 2021 – May 12, 2025.

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# What Exactly Is a "Qualified Production Activity"?

## The Definition

<u>Manufacturing, production, or refining of a “qualified product” that results in a “substantial transformation” of the underlying material.</u>

“Production” itself is narrowly limited to agricultural and chemical production.

## What "Substantial Transformation" Actually Looks Like

Treasury's own examples: wood pulp into paper, steel rods into screws and bolts, fresh fish into canned fish. Mere assembly, packaging, storage, or minor finishing of already-finished goods does NOT count.

## Broader Than "Traditional Manufacturing"

This can cover businesses that don't think of themselves as manufacturers at all — a coffee roaster turning green beans into roasted coffee, or a facility converting natural gas into liquid form (LNG).

## One Exclusion Worth Flagging

“Qualified product” specifically excludes food or beverages prepared in the same building as the retail establishment where they're sold — restaurants and breweries are carved out, even though they clearly “transform” ingredients.

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# The Lessor Answer & a Documentation Tip

### A "Just the Landlord" Owner Can Still Qualify

Notice 2026-16 clarifies a lessor real estate LLC can qualify for §168(n) if leased to a commonly controlled operating entity (ownership tested under §267(b)/§707(b)) – even though the LLC isn't doing the manufacturing.

### The "Space-Segregation" Study

Since only the production footprint qualifies, commission a study – similar in spirit to cost segregation – documenting the exact square footage dedicated to the qualified activity.

### Caveats Worth Voicing

10-year recapture exposure; the election is effectively irrevocable absent IRS consent; Treasury has signaled anti-abuse rules targeting sale-leasebacks and artificial building segregation.

# Deductions You May Be Missing

Everyday Write-Offs You Should Include On Your Tax Return

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# Other Overlooked Business / Rental Deductions

*Commonly missed – all legitimate "ordinary and necessary" business expenses.*

### Cell Phone & Second Line

Assign a reasonable business-use %. A second phone line used exclusively for business is 100% deductible.

### Home Office & Mileage

Available even for a rental business on Schedule E. See qualifying tests for eligibility.

A qualifying home office also converts drive time into deductible business mileage.

### Travel, Education & Software

Out-of-town trips with a documented business purpose; courses/conferences; property management and screening software.

### Legal Fees, Bank Fees & Turnover Costs

Tax prep fees on Schedule E, attorney fees, tenant screening, bank/CC fees, cleaning between tenants.

# Other Overlooked Business / Rental Deductions

*Commonly missed – all legitimate "ordinary and necessary" business expenses.*

### Hiring Your Kids

Only applies to partnerships where every partner is a parent, and the child has to do real work (cleaning, tenant messaging, admin tasks).

### The De Minimis Safe Harbor Election

Annual election that allows for immediate expensing of items $2,500 or less

### Business Gifts

Capped at $25 per recipient, per year. Engraving, gift wrap, and shipping costs excluded.

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# Opportunity Zones

A Refresh on Where Things Stand

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# What Are Opportunity Zones?

## The Concept

Designated low-income census tracts where investors can deploy capital gains into a Qualified Opportunity Fund (QOF) in exchange for tax benefits.

## The Benefit

Defer, reduce, and potentially eliminate capital gains tax — depending on how long the investment is held.

## The Origin

Created under the Tax Cuts & Jobs Act (TCJA) in 2017. Over 8,700 zones designated nationwide.

**8,700+** zones nationwide

**10 yrs** hold for full gain exclusion

**2017** original TCJA enactment

*Now made permanent under the One Big Beautiful Bill (OBBB)*

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# OBBB Changes: What's New for Opportunity Zones

**PERMANENT**

No more sunset
No more uncertainty

The program is now permanent law — clients can plan with certainty.

*Note: Current zone designations run through 2026. New 10-year cycles begin in 2027.*

### Year of Inclusion

Deferred gain is recognized on the earlier of a disposition/inclusion event or the 5th anniversary of the QOF investment. Existing OZ 1.0 investors: the prior 12/31/2026 inclusion date still applies.

### Partial Gain Forgiveness

Hold 5 years → 10% of deferred gain forgiven. Investments through a Qualified Rural Opportunity Fund (QROF) receive an enhanced 30% reduction — a specific designation, not all rural projects.

### 10-Year Gain Exclusion

Hold 10+ years → the appreciation inside the QOF is excluded from tax entirely. This benefit is preserved.

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# Why the OZ Conversation Matters Right Now

## Planning Certainty Returns

Advisors and investors can now underwrite OZ investments over a full 10-year horizon without worrying about legislative expiration. This changes the math significantly.

## Real Estate Is the Primary Vehicle

The vast majority of QOF activity is real estate development. Ground-up construction and long hold periods align naturally with RE projects. Standard substantial improvement requires roughly doubling the property basis; rural QOF properties have a reduced 50% threshold.

## The Window Is Ideal

New supply is constrained, distressed sponsors are emerging, and capital is coming back off the sidelines. OZ incentives make attractive projects even more compelling.

## Clients May Not Know This Changed

Many clients heard about OZones in 2018-2019 and tuned out. The program being made permanent is worth re-introducing proactively.

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# When to Raise OZones with a Client

*If any of these come up in a client conversation, Opportunity Zones deserve a look:*

- A pending or recent sale of appreciated real estate, a business, or securities
- A client involved in real estate development looking for equity structuring options
- A client with a large capital gain looking for deferral strategies beyond 1031
- Developers or investors exploring projects in lower-income or transitional markets
- Estate planning conversations where long-term holding periods are already part of the plan

# AI in Real Estate

What to Know, What to Watch

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# Why AI + Real Estate, Why Now

*Real estate is a data-intensive industry sitting at the intersection of markets, timing, and decision-making.*

That makes it an early and significant target for AI adoption — from property valuation to lease management to underwriting.

**You're already encountering it — or will soon.**

**Early**

Real estate ranks among the earliest major industries to adopt AI — from valuation models to lease abstraction

**76%**

of CRE professionals were researching, piloting, or in early-stage AI implementation (Deloitte 2025 CRE Outlook)

**Now**

The tools exist. You may already be using them — or your competitors are

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# Where AI Is Already Showing Up in Real Estate

## Property Valuation & Market Analysis

AI models analyze comparable sales, market trends, and economic indicators to generate real-time valuations and predictive pricing — faster and at greater scale than traditional appraisals.

## Property Management & Operations

Predictive maintenance, tenant communication bots, occupancy optimization, and energy usage forecasting are all being deployed in managed portfolios.

## Lease Abstraction & Document Review

AI reads and extracts key terms from leases, contracts, and due diligence documents in minutes rather than hours. Significant time savings for attorneys and CRE professionals.

## Portfolio Reporting & Forecasting

Automated dashboards pull live data from property management systems, generate investor reports, and flag performance anomalies without manual compilation.

## Deal Underwriting & Due Diligence

Machine learning models can screen deals against investment criteria, flag risk factors, and model scenarios — augmenting (not replacing) the analyst's judgment.

## Tenant Screening

AI tools evaluate tenant applications at scale using credit, income verification, and behavioral data — raising fair housing compliance questions that advisors need to understand.

# What This Means for Real Estate Professionals

## For Real Estate Owners & Investors

• Competitors are adopting AI tools — staying informed isn't optional

• Efficiency gains in operations and underwriting are real and growing

• Fair housing, privacy, and data governance obligations are emerging

• AI-generated financial projections still require professional review

## How Your CPA Can Help

• AI handles data aggregation — your CPA adds judgment and context

• Interpreting AI outputs accurately requires professional expertise, not just access

• CPA firms using AI internally can serve you faster and with greater depth

• Your advisor helps you ask the right questions — and evaluate the answers

# Practical Takeaways

*Questions worth raising with your advisor — or yourself:*

***"Are you currently using AI tools in your real estate operations — and if so, who is validating the outputs?"***

Many operators are using AI tools informally without a clear review process. Worth examining.

***"How confident are you in the financial projections or market analyses these tools are generating for you?"***

AI can produce confident-sounding outputs that are wrong. Professional review of key assumptions matters.

***"Have you considered your data governance and privacy obligations when using AI in tenant screening or property management?"***

Fair housing regulations apply whether decisions are made by a person or an algorithm. Real compliance exposure exists here.

# Questions?

**Sarah Shirley**

*Supervisor*

BMSS Advisors & CPAs

sshirley@bmss.com

256.964.9809

**Alan Duncan, CPA**

*Senior Manager*

BMSS Advisors & CPAs

aduncan@bmss.com

256.964.9832

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