

Impact of OBBBA on Passive Commercial Rental Property Owners

100% BONUS DEPRECIATION FOR SHORTER-LIFE ASSETS

Permanent full expensing is restored: Owners can immediately deduct 100% of qualifying assets placed in service after January 19, 2025—not just equipment, but also qualified improvement property (QIP), software, and energy systems in rental real estate projects. Cost segregation is essential for breaking out 5-, 7-, and 15-year components from 39-year building property to make them eligible for immediate expensing.

SECTION 179 & QUALIFIED PRODUCTION PROPERTY

Section 179 expensing limits have increased (now up to \$2.5M), but traditional rental properties remain ineligible unless actively operated (e.g., hotels). However, 'qualified production property' now includes certain facility-based real estate, eligible for 100% expensing through 2029.

INTEREST DEDUCTION ALIGNMENT ENHANCES DEDUCTIONS

The law reverts to an EBITDA-based interest deduction limit under Section 163(j), which works synergistically with large depreciation deductions to allow full interest expense deductibility.

IMPACT ON PASSIVE ACTIVITY LOSSES

Large first-year deductions can create paper losses. Real estate professionals can fully deduct these losses. Passive investors can apply up to \$25,000 in losses against other income (phases out from \$100k–\$150k MAGI).

REAL-WORLD EXAMPLE

A Sola solon invests \$1M in renovations (e.g., HVAC, lighting, landscaping). Without OBBBA, the improvements would be depreciated over 39 years (~\$25k/year). With cost segregation and 100% bonus depreciation, the entire \$1M could be deducted in year one, resulting in approximately \$370,000 in tax savings (assuming a 37% marginal tax rate). This can create a powerful cash flow advantage, especially for real estate professionals who can deduct the entire loss immediately.

SUMMARY TABLE

Feature	Sola Salons Impact
Bonus Depreciation	100% expensing for short-life assets—accelerates deductions, boosts cash flow.
Cost Segregation	Essential for reallocating ≤ 20 -year assets to fully deductible categories.
Section 179	Still not available for passive rentals (unless actively conducted business).
Interest Deduction	Easier to deduct full interest via EBITDA rule syncing with depreciation boosts.
Passive Loss Usage	Real estate pros deduct fully; others use losses against non-passive income (\$25k cap).

STRATEGIC TAKEAWAYS FOR PASSIVE OWNERS

- Engage a cost segregation study on acquisitions and capital improvements to unlock full bonus depreciation.
- Evaluate whether you or a spouse qualify as a real estate professional to deduct all losses.
- Ensure you actively participate ($\geq 10\%$ ownership + decision-making) to use the \$25k passive loss allowance.
- Coordinate timing: Placing improvements into service in 2025+ yields maximum benefit.
- Plan for state tax conformity, as some states decouple from federal bonus depreciation.

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