One Big Beautiful Bill: Key Tax Planning Opportunities and Challenges for Commercial Real Estate Owners

The One Big Beautiful Bill Act (Act), which President Trump signed into law on July 4, presents both opportunities and challenges for the commercial real estate (CRE) industry. Below is a *very* brief summary of some highlights relevant to CRE participants.

Primary Benefits for CRE Owners

Increased Availability of Low-Income Housing Tax Credits

The Act increases LIHTC availability to new housing developers in two ways: (1) it permanently increases by 12% the state credit allocation (the 9% credits); and (2) it lowers the bond financing threshold (the qualifying test for 4% credits) from a prior requirement that developers fund a qualifying project with at least 50% tax-exempt bonds to a new requirement of a minimum 25% tax-exempt bond funding.

Permanent Extension of New Markets Tax Credits

The Act permanently extends the New Markets Tax Credit (NMTC) program, allowing the Community Development Financial Institutions Fund (CDFI) to continue allocating $5 billion in NMTC awards annually to support projects in low-income communities nationwide. The Act also permits a five-year carryforward for any NMTCs that are not allocated by the CDFI in a given year.

Expanded and Enhanced Opportunity Zone Incentives

The Act renews and modifies the Opportunity Zone (OZ) program, allowing for a new round of OZ designations and extending the window for tax-advantaged investments. The Act also introduces new incentives for rural communities, potentially increasing the pool of eligible projects and investors. For CRE stakeholders, this means continued access to capital gains deferral and exclusion strategies, as well as new opportunities in targeted geographies.

Restoration of 100% Bonus Depreciation

The Act reinstates and makes permanent 100% bonus depreciation for qualifying property placed in service after January 19, 2025. This provision generally allows immediate expensing of qualified property (as defined in IRC §168(k)), thereby improving after-tax returns in the year of investment.

Permanent Qualified Business Income Deduction

The Act permanently extends the Qualified Business Income (QBI) deduction under IRC §199A at the current 20% rate. Permanently extending the QBI deduction provides long-term planning certainty for real estate partnerships and LLCs.

Increased §179 Expensing Limits

The Act raises the IRC §179 expensing cap from $1 million to $2.5 million (currently $1.25 million, adjusted for inflation), with a new phase-out threshold of the deduction beginning at $4 million, up from $2.5 million (currently $3.13 million, adjusted for inflation) – meaning that each year an owner will now be allowed to deduct up to $2.5 million in qualifying capital costs, but for every dollar of capital costs over $4 million in a given year, the expensing cap will be reduced by a dollar. The §179 expensing cap and phase-out threshold are available immediately for property placed in service in taxable years beginning after December 31, 2024, and will continue to be adjusted annually for inflation. Under the new regime, if $6.5 million or more of qualified property is placed in service during a given year, then the §179 deduction will be reduced to zero for that year. This change could benefit owner-operators investing in building systems by enabling accelerated deduction of improvement costs in the year placed in service, provided such improvement costs are qualifying costs for purposes of §179. This is especially valuable for small and mid-sized CRE owners seeking to modernize or reposition assets.

Permanent Preservation of Certain Individual Tax Provisions That Likely Benefit CRE Investors

Certain changes to the tax code introduced under the 2017 Tax Cuts and Jobs Act that would have sunset at the end of 2025 have been permanently extended. These include the permanent increase to $15 million of the gift and estate tax unified lifetime exemption ($30 million for a married couple), indexed for inflation; the permanent ability to deduct mortgage interest on up to $750,000 of debt on a personal residence; and the restoration of the deduction for mortgage insurance premiums. Although these provisions are not directly applicable to CRE businesses, they are likely to benefit CRE investors personally.

Some Burdens and Restructuring Considerations

Reduced or Phased-Out Energy Efficiency Incentives

The Act eliminates certain energy efficiency tax incentives, such as the IRC §179D deduction, which will not be available for property for which construction begins after June 30, 2026, and the §45L credit, which will not be available for property acquired after June 30, 2026. This could increase after-tax costs for CRE owners planning major renovations or new construction with a sustainability focus, and may require reevaluation of project economics and financing structures.

New Restrictions and Reporting for OZ Investments

While OZ incentives are extended, the Act introduces new compliance mandates, such as annual impact reporting and increased IRS scrutiny. Every Qualified Opportunity Fund (QOF) and Qualified OZ Business will be subject to new annual information return requirements. The specifics of these requirements, including enforcement mechanisms and penalties for noncompliance, will be defined under future Treasury regulations or other applicable guidance. The newly enhanced compliance, reporting and transparency obligations apply not only to future OZ investments but also to existing QOFs, so real estate sponsors who have offered QOFs will need to reevaluate their existing OZ structures and reporting frameworks to maintain tax benefits and should monitor for further guidance and possible grandfathering provisions for existing investments.

Our Real Estate Tax Team Can Help

The Act presents some significant opportunities to reduce taxable income, accelerate deductions and simplify long-term planning, but these opportunities come with increased complexity and new trade-offs that may require entity-level restructuring and enhanced compliance. Our tax advisory team is here to help clients make the most of the opportunities presented by the Act.

FOR MORE INFORMATION

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