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Real Estate Investor Tax Guide 2026: The Strategies Most Investors Miss

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The short answer

The six strategies that move the most tax for investors are cost segregation with 100% bonus depreciation, real estate professional status, the short-term rental rules, 1031 exchanges, the right entity structure, and the QBI safe harbor for rental enterprises. None of them work if you only think about taxes in April.

1. Cost segregation and bonus depreciation

Residential rental buildings normally depreciate over 27.5 years. A cost segregation study breaks the property into components, such as flooring, cabinetry, fixtures, landscaping and certain electrical systems, that qualify for 5-, 7- or 15-year lives.

Under the One Big Beautiful Bill Act, 100% bonus depreciation is permanent for qualifying property acquired after January 19, 2025, so those reclassified components can be deducted in the first year.

On a $500,000 rental, a study might reclassify $100,000–$150,000 into shorter lives. At a 32% federal rate, that can mean $25,000–$50,000 of first-year savings, if the losses can be used (see sections 2 and 3). Studies are performed by specialist engineering firms and typically cost $3,000–$8,000; they tend to make sense on properties of $300,000 or more. Our role is to tell you whether a study is worth it for your situation, coordinate with the firm, and apply the results correctly on your return.

Cost segregation mostly shifts deductions earlier; it doesn't create new ones. Accelerated depreciation is recaptured when you sell, and the reclassified 5- and 7-year components are recaptured at ordinary income rates, not the 25% rate for buildings. If you plan to sell within a few years without a 1031 exchange, the benefit may be much smaller than it looks.

2. Real estate professional status (REPS)

Rental losses are normally passive and can only offset passive income. There's one exception for middle incomes: if you actively participate, up to $25,000 of rental losses can offset other income, phasing out between $100,000 and $150,000 of modified AGI. Above that, real estate professional status is what turns losses into non-passive losses that can offset wages and business income. Losses you can't use aren't lost; they carry forward and are released when you sell the property.

- More than half of your personal service hours for the year are in real property trades or businesses where you materially participate
- More than 750 hours in those activities
- Material participation in the rentals themselves (a grouping election often helps)
- On a joint return, only one spouse needs to qualify

A household with $80,000 of rental losses and $200,000 of other income, where one spouse works in real estate full time and qualifies, could reduce taxable income by $80,000, which is roughly $25,600 at a 32% rate. Someone with a full-time W-2 job almost never qualifies, because more than half of their working hours are in that job. The IRS scrutinizes REPS claims, so keep a contemporaneous time log from January.

3. The short-term rental rules

If the average guest stay is seven days or less (or 30 days or less with substantial services), the property isn't treated as a rental activity under the passive loss rules. If you materially participate, losses can offset other income without REPS.

Material participation is the hard part. The common tests are 100 hours or more and more than anyone else, including cleaners and managers, or 500 hours in total. If a property manager runs the property, you usually won't meet them.

Rental type	Average stay	Loss treatment	REPS needed?
Long-term rental	More than 30 days	Passive unless REPS	Yes, to offset other income
Short-term rental	7 days or less	Non-passive with material participation	No
Vacation home	Mixed personal and rental use	Special allocation rules	Depends on personal-use days

4. The 1031 exchange

A 1031 exchange defers capital gains and depreciation recapture by reinvesting sale proceeds in like-kind real property.

- Identify replacement property in writing within 45 days of the sale
- Close within 180 days of the sale (or your return due date, if earlier)
- Buy equal or greater value and reinvest all proceeds to defer the full gain
- Use a qualified intermediary; you can't touch the money

If you hold until death, heirs generally receive a stepped-up basis and the deferred gain can disappear entirely.

5. Entity structure for a portfolio

- Single-member LLCs protect individual properties and are ignored for federal tax by default.
- Holding companies with property-level LLCs separate liability and keep books clean as the portfolio grows.
- An S corp rarely suits buy-and-hold rentals, since appreciated property is hard to take back out of it, but it can suit active businesses like flipping or property management.

6. QBI for rental real estate

Net rental income can qualify for the 20% QBI deduction if the activity rises to a trade or business. Rev. Proc. 2019-38 offers a safe harbor: separate books for each rental enterprise and at least 250 hours of rental services a year (with contemporaneous records). Triple-net leases and property you also use personally don't qualify for the safe harbor.

On $100,000 of qualifying net rental income, a 20% deduction at a 32% rate saves about $6,400. Many rentals show little net income after depreciation, so check the net number before counting on this.

Make it work: plan during the year

Cost segregation is easiest in the year of purchase or renovation, though a look-back study can catch up missed depreciation on property you already own. REPS and material participation need hour logs from January. 1031 deadlines start the day you close. The QBI safe harbor needs records kept all year. Good property-level books are what make every one of these defensible.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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