How the New Tax Law is Reshaping Real Estate Projects

If your projects involve residential, commercial, or mixed-use properties, there are six major legislative changes that you need to know about.

Permanent QBI Deduction for Pass-throughs

If you're operating as an LLC, partnership, or S corp, the 20% deduction for qualified business income is now permanent, and there's a new floor. Even a small amount of QBI can translate into a guaranteed deduction of $400. This helps stabilize your tax expectations, especially when dealing with partnership distributions or writ dividends.

100% Bonus Depreciation Returns

Starting in 2025, qualifying property placed in service can be fully deducted in the first year. That includes things like HVAC systems, lighting, appliances, and newly certain manufacturing or industrial buildings.

Opportunity Zones Become Permanent

The tax benefit for investing in designated low-income zones is now a permanent part of the tax code. States can designate new zones every decade, adapting to population shifts and regional trends. The key advantages remain: defer capital gains tax for five years, receive a 10% basis step up, and if the investment is held 10 years, appreciate tax free, subject to rules. Rural areas get more flexibility with lower thresholds and higher step ups.

Boost in Affordable Housing Incentives

The Low Income Housing Tax Credit gets a lift with states receiving 12% more in allocations. The requirement to use tax-exempt bonds is halved, from 50% to 25% of project costs, which reduces financing obstacles. This helps narrow funding gaps when pursuing housing projects intended for low-income residents.

Greater Flexibility in Interest Deductions

The cap on business interest deduction is now tied to EBITDA instead of EBIT. This means depreciation and amortization are added back, giving more breathing room to deduct interest for leveraged projects. You can still elect out of these limits, but doing so affects how you must handle depreciation.

Energy Incentives are Time Bound

Some favorable tax credits for energy efficiency don't last forever under the new law. Section 45L, for energy efficient residential units, is available only through June 30, 2026. Section 179D, for commercial energy upgrades, also phases out for buildings that begun construction after June 2026.

Here's How to Move Forward

Review your pipeline of capital projects and decide which ones to accelerate or to postpone. Examine whether opportunity zones or enhance LIHTC allocations fit in your portfolio. Reassess your financing structure, especially if you carry debt, the change in interest deduction rules can influence leverage decisions. If you have energy efficient upgrades in mind, check whether they must be scheduled before the mid-2026 cut off.

Partner with your tax and financial advisors now. Aligning your project with these new rules can make a real difference in outcomes.