WESSELS

REAL ESTATE TAX STRATEGY

THE BOSTON INVESTOR'S PLAYBOOK

Seven moves that keep *five figures* in your pocket.

The tax code rewards real estate investors who plan — and quietly penalizes the ones who don't. Here are the seven highest-leverage moves, in plain English, with the Massachusetts specifics.

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START HERE

Most investors don't lose money to bad deals. They lose it to good deals taxed badly — gains paid that could have been deferred, deductions left on the table, losses trapped as "passive." Every move below is legal, common among sophisticated investors, and usually missed by a generalist accountant who files what already happened instead of planning what should.

MOVE 01 — DEFER THE GAIN ENTIRELY

The 1031 Exchange

WHY IT MATTERS

When you sell an investment property at a gain, you can roll the entire proceeds into a "like-kind" replacement and pay *zero* federal tax now — deferring the capital gain and the depreciation recapture. Done in sequence, you can defer for decades and reset basis at death.

> On a $400K gain, a 1031 can keep roughly **$100K+** working in your next property instead of going to the IRS this year.

THE CATCH — *The clock is brutal. From the day you close, you have 45 calendar days to identify the replacement in writing and 180 days to close it. Proceeds must be held by a qualified intermediary — touch the cash and the deferral is gone. We line up replacements before you ever list.*

MOVE 02 — FRONT-LOAD YOUR DEPRECIATION

Cost Segregation

WHY IT MATTERS

A building is normally depreciated over 27.5 or 39 years. A cost segregation study breaks it into its components — appliances, flooring, fixtures, land improvements — and reclassifies them to 5-, 7-, and 15-year lives, pulling huge deductions into the early years when you need the shelter most.

> A study on a **$1.2M** multifamily commonly reclassifies 20-30% of basis into short-life property — a six-figure first-year deduction once paired with bonus depreciation.

THE CATCH — *It only pays if you have income to shelter and plan to hold (selling soon can trigger recapture). Best deployed the year you buy or place in service — and it's far more* *powerful when coordinated with the next move.*

MOVE 03 — EXPENSE IT NOW, NOT OVER DECADES

Bonus Depreciation

WHY IT MATTERS

Bonus depreciation lets you immediately deduct a large share of the short-life components a cost seg study uncovers, rather than spreading them out. Stacked on cost segregation, it turns a paper asset into a current-year deduction that can offset other income.

> The bonus percentage changes with federal law — confirming the **current-year rate** before you buy can swing your deduction by tens of thousands.

THE CATCH – *Timing is everything, and the rules move. This is exactly the kind of thing a CPA who watches the law (and invests) catches before December 31, not after.*

MOVE 04 — TURN "PASSIVE" LOSSES INTO REAL ONES

Real Estate Professional Status (REPS)

WHY IT MATTERS

By default, rental losses are "passive" — they can only offset passive income, not your W-2 or business income. Qualify as a real estate professional (more than 750 hours and more than half your working time in real property trades, plus material participation) and those losses become non-passive: they offset ordinary income.

> Pair REPS with a cost-seg-driven loss and a high earner can shelter **$100K+** of ordinary income in a single year.

THE CATCH – *The IRS scrutinizes REPS hard. You need contemporaneous time logs and a defensible position — not a number you invented in April. We set the documentation up front.*

MOVE 05 — THE STATUS YOU MAY ALREADY QUALIFY FOR

The Short-Term Rental Strategy

WHY IT MATTERS

If a property's average guest stay is seven days or less and you materially participate, it isn't treated as a passive rental at all — even if you don't qualify for REPS. That means the losses (often large, thanks to cost seg) can offset other income without the 750-hour test.

> A single well-run short-term rental, cost-segregated, can generate a **five-figure** first-year deduction against your active income.

THE CATCH — *"Material participation" still has to be real, and local short-term-rental rules vary block by block in Greater Boston. Structure it right or the benefit unwinds.*

MOVE 06 — HOLD IT IN THE RIGHT WRAPPER

Entity Structure & the QBI Deduction

WHY IT MATTERS

How you hold property — your name, an LLC, a partnership, an S-corp — changes your tax, your liability, and your access to the 20% qualified business income (QBI) deduction. The right structure for a flip is the wrong one for a long-term hold.

> Getting the entity and QBI treatment right is often worth **thousands a year** — and getting it wrong can cost you self-employment tax you never owed.

THE CATCH — *There's no universal answer. It depends on your income, your other businesses, and your exit plan — which is why this is a conversation, not a template.*

MOVE 07 — PLAN THE EXIT BEFORE YOU ENTER

Manage Depreciation Recapture

WHY IT MATTERS

All that accelerated depreciation comes due when you sell — taxed as recapture, sometimes at higher rates than the gain itself. Investors who plan the exit (1031 into the next deal, installment sales, timing) keep the benefit; the ones who don't get a surprise bill.

THE CATCH — *The moves above compound — but only if they're coordinated. Run them in isolation and one can quietly undo another.*

THE EIGHTH MOVE

Have someone run all seven *at once.*

Each move is worth real money. Coordinated — the right entity, cost-segregated, with REPS or the STR strategy, exited through a 1031 — they compound into the difference between a good year and a great decade. That's the whole job.

YOUR FREE TAX SAVINGS REVIEW — bring one property; in 20 minutes I'll show you:

· what a cost segregation study could unlock in year one

· whether you'd qualify for REPS or the short-term-rental strategy

· what your next sale could defer through a 1031

Book it: calendly.com/wesselstaxadvisors

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