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Angelo J. Di Fusco
Certified Public Accountant

Smart Real Estate Tax Strategies

How to Keep More of What You Earn

Tax Deferral & Exclusion Techniques for Real Estate Investors

Angelo J. Di Fusco
Certified Public Accountant

Introduction: Service Categories

Why tax deferral & exclusion strategies matter?

Common goals: deferring capital gains, reducing taxable income, building long-term wealth

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Section 1

Tax Deferral Strategies

1031 Exchange: The Basics

- Swap investment properties tax-free (“like-kind exchange”)
- Must use a Qualified Intermediary (QI)
- Real estate for investment/business only (not personal homes)

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1031 Exchange: Key Rules

- Identify replacement property within 45 days
- Close within 180 days
- Replacement must be equal or greater value
- Same name on both titles

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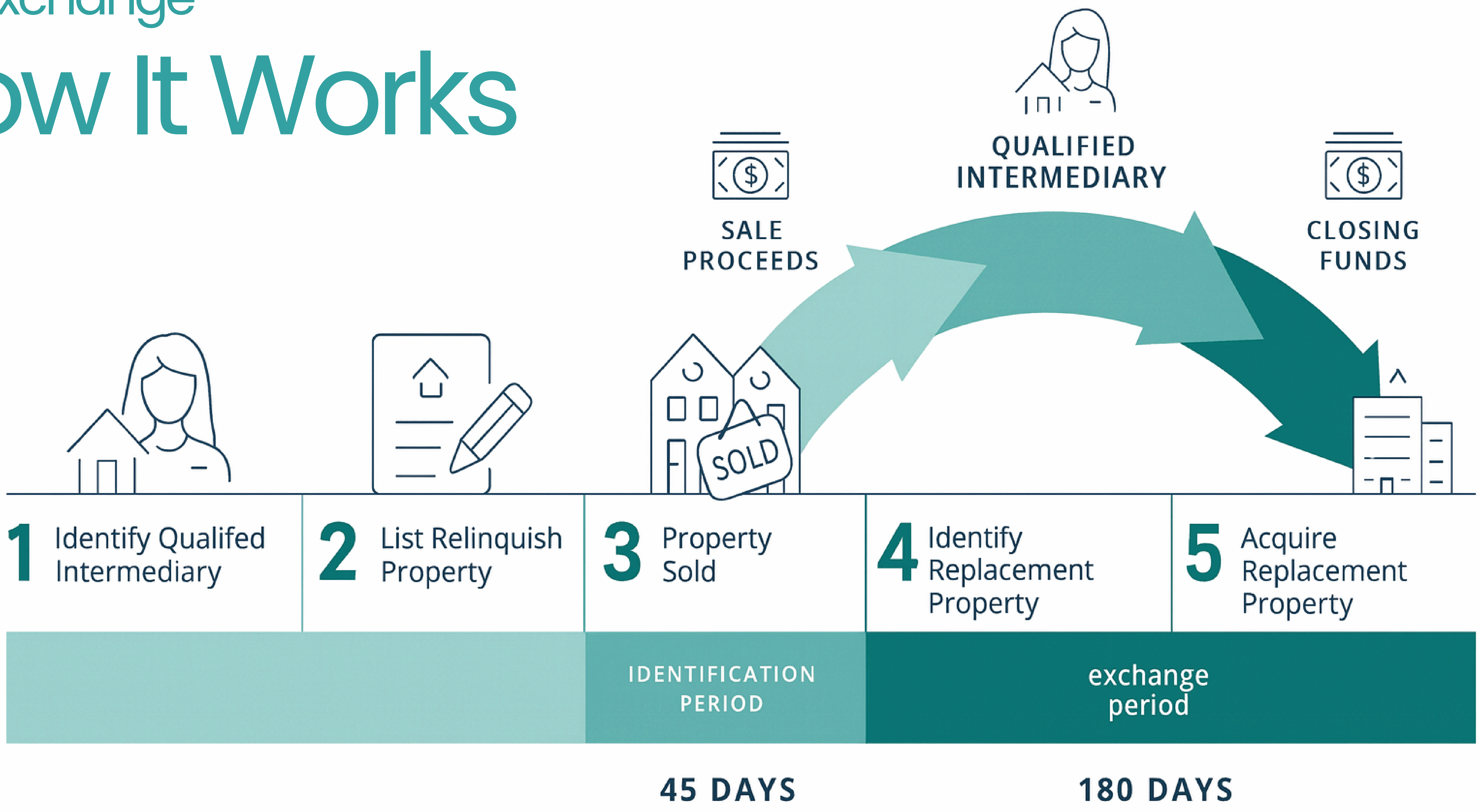
1031 Exchange

How It Works



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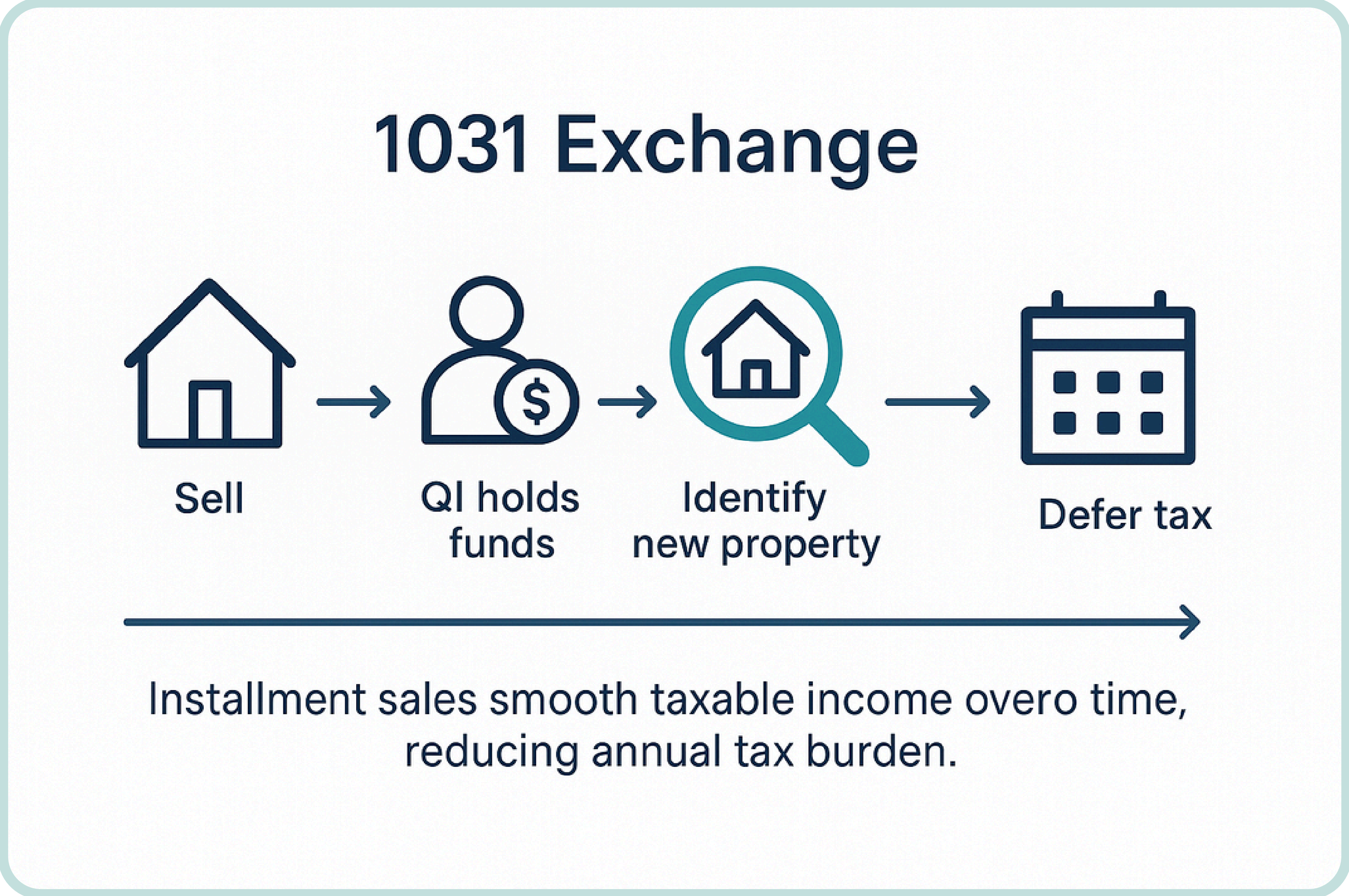
1031 Exchange: Creative Uses

- Convert a principal residence into a rental for 2 years
- Sell to your own S-Corp to use the exclusion + exchange
- Reverse or improvement exchanges



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Cost Segregation: Accelerate Depreciation

- Break property into components with shorter lives
- Bonus depreciation on assets ≤ 20 years
- Example: Cabinets, flooring, fixtures, landscaping

Cost Seg Example

Example:
$1.2M property → $900K building → $300K short-life assets → $300K first-year deduction

Notes:

- Passive loss limited to $25K/year
- Real estate professionals can offset ordinary income

Scenario	Without Study	With Cost Segregation Study
Property Value	$1,200,000	$1,200,000
Land (non-depreciable)	$300,000	$300,000
Building Depreciated	$900,000	$900,000
First-Year Depreciation	MAX $31,122	**$300,000 (bonus) + $20,748**
Tax Savings @ 35%	$10,892	**$112,262**
Result	Gradual write-off	**Massive first-year deduction**

Accelerated depreciation = faster tax savings.

Real Estate Professional Rule

- More than 50% of work in real property trades
- 750 hours/year in real estate activity

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Certified Public Accountant

Short-Term Rental "Loophole"

- Rentals ≤ 7 days = non-passive income
- Must materially participate (500+ hours or >100 hrs & at least as much as any other person's participation
- Can deduct losses against wages

1. The average period of customer use of the property is 7 days or less
2. The average period of customer use is 30 days or less and you provide significant personal services
3. You provide extraordinary personal services in making the rental property available for customer use
4. The rental is incidental to a nonrental activity
5. You customarily make the rental property available during defined business hours for nonexclusive use by various customers
6. You provide the property for use in a nonrental activity in your capacity as an owner of an interest in the partnership, S corporation, or joint venture conducting that activity

Depreciation Refresher

Property Type	Useful Life
Residential	27.5 yrs
Commercial	39 yrs
Land Improv.	15 yrs
Farm Bldg	20 yrs
Ag. Structures	10 yrs

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Certified Public Accountant

Installment Sales: Example & Risks

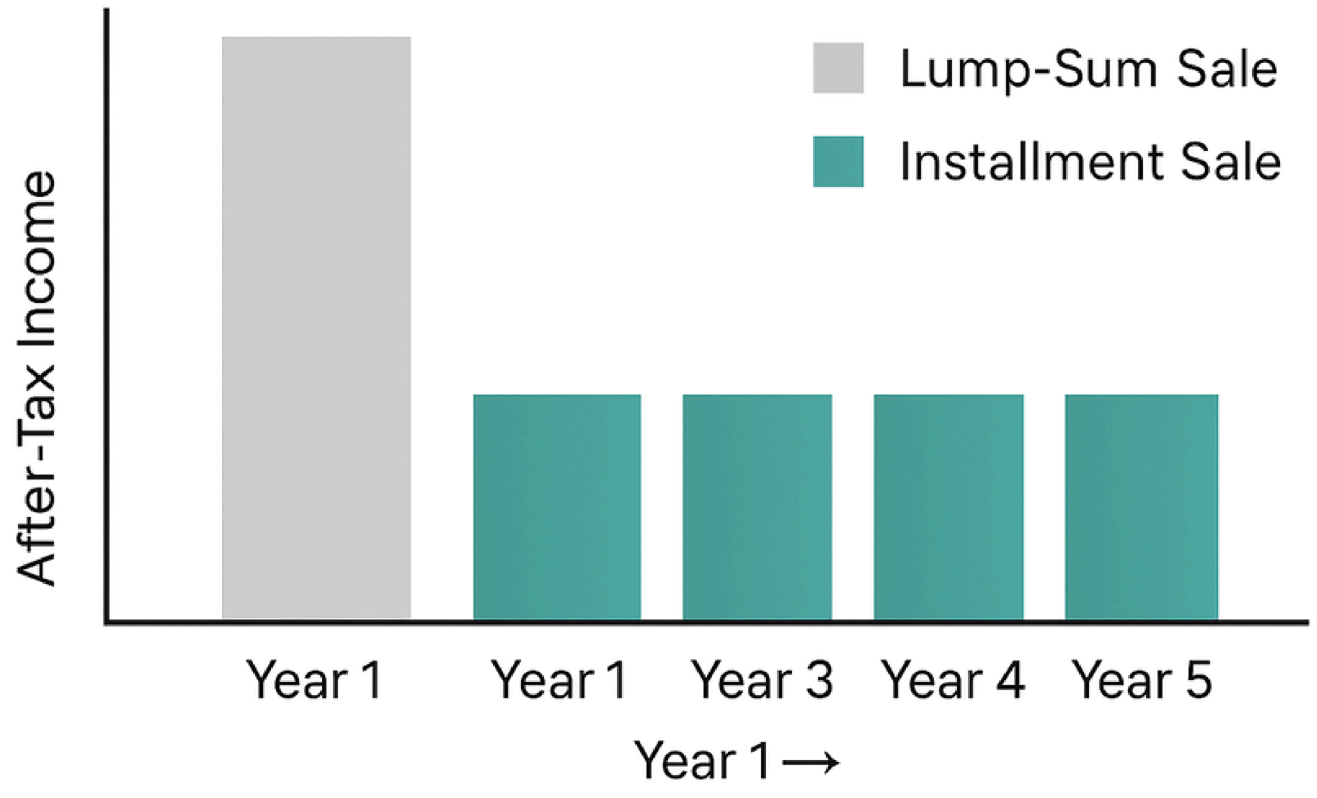
Example Formula:

$$\frac{\text{Selling Price - Adjusted Basis}}{\text{Selling Price}} \times \begin{array}{l}\text{Principal Portion}\\ \text{of Payments}\end{array} = \text{Gains}$$

- Spread gain over years → lower bracket
- Predictable income stream
- Attracts more buyers via seller financing

Risks:

- Default risk
- Lose reinvestment opportunity



Installment sales smooth taxable income over time, reducing annual tax burden.

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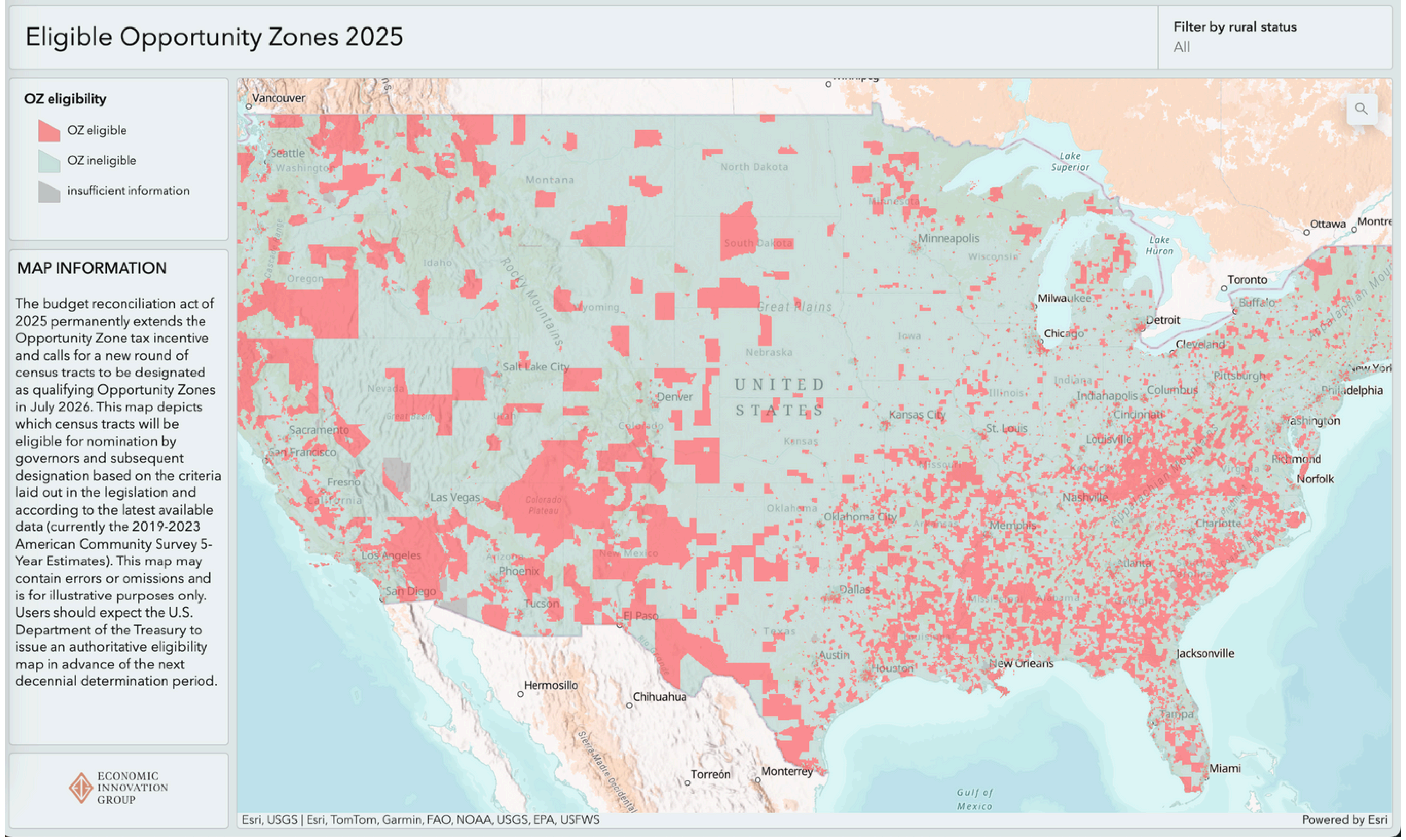
Qualified Opportunity Funds (QOFs)

- Invest capital gains in distressed zones
- Defer gain + eliminate after 10 years



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Section 2

Tax Exclusion Strategies

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Sec. 121 Exclusion: Primary Residence

THE 2-OUT-OF-5-YEAR RULE

Appreciation above $250,000 or $500,000

taxed at capital gains rate of 15% - 20%

- $250K / $500K exclusion
- Must live there 2 of last 5 years
- Only once every 2 years

If you've owned a house for 2 years and it's your primary residence, a big part of your profit does not get taxed.

Married taxpayers → **$500,000** exempted

Single taxpayers → **$250,000** exempted

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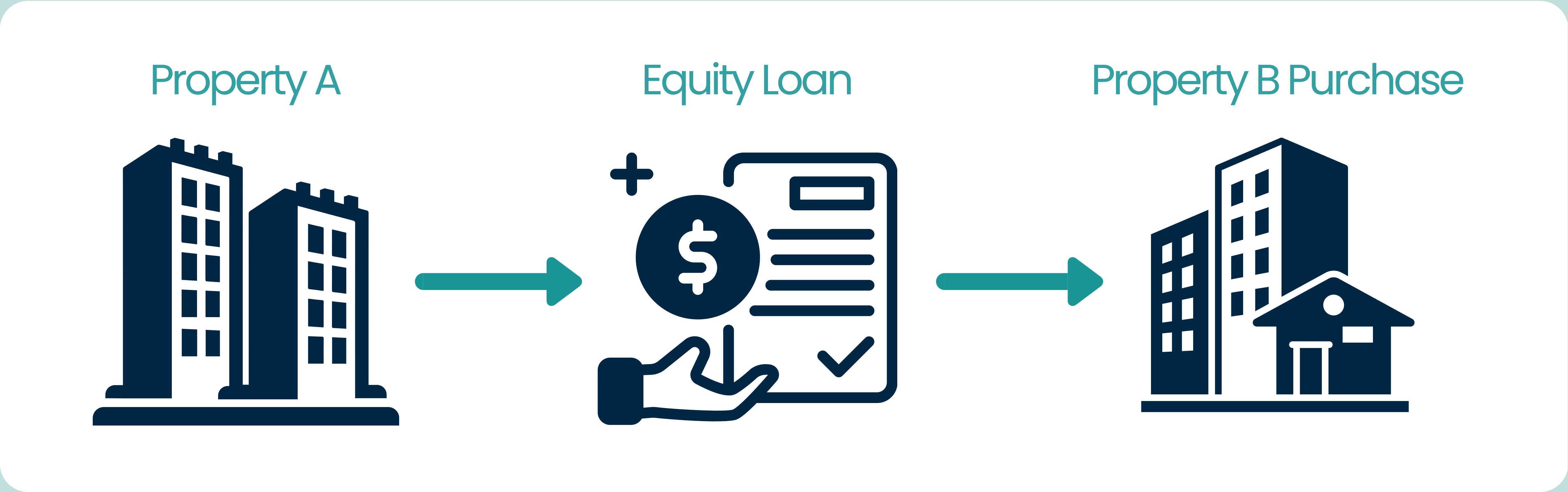
Equity Borrowing Strategy

- Borrow against appreciation, not taxable
- Use equity to buy another property
- “No taxable event”



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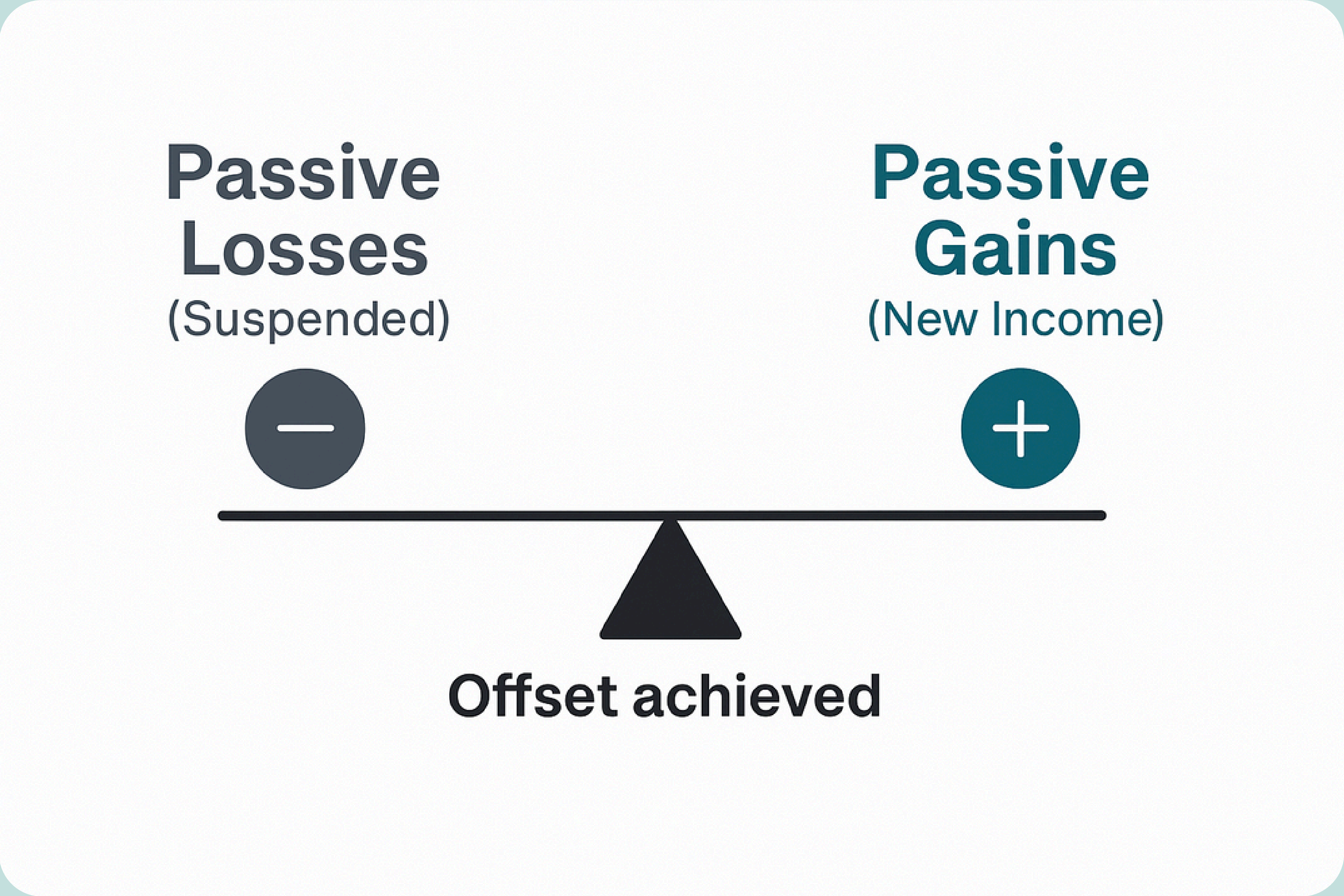
Passive Loss Offsets

- Use suspended passive losses to offset new gains
- Sell property → suspended losses released



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Step-Up in Basis at Death

- Heirs inherit property at current market value
- Eliminates lifetime appreciation
- Full step-up in community property states
- Appraisal required

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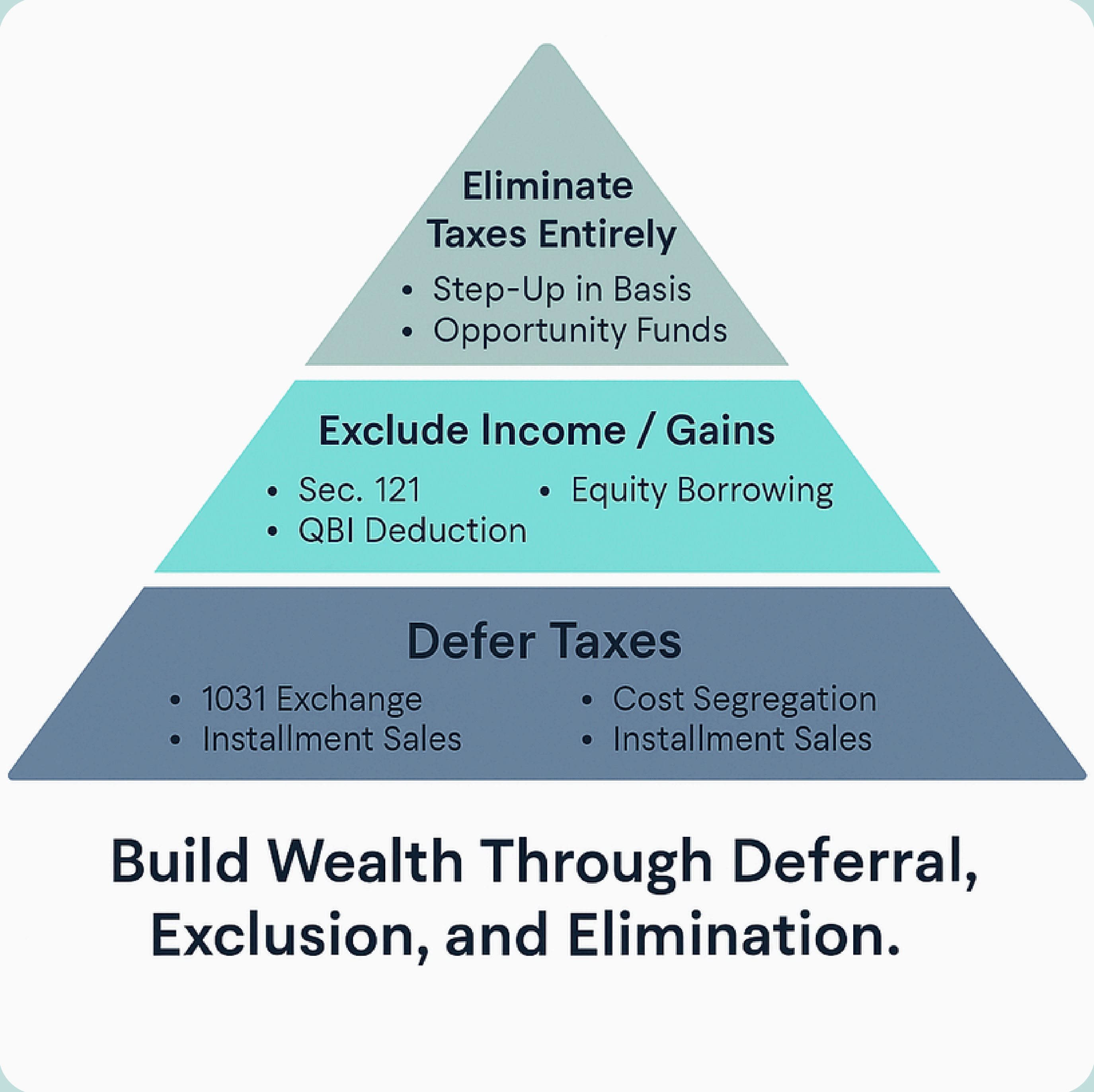
Putting It All Together

- Defer → 1031, Cost Seg, Installment, QOF
- Exclude → §121, QBI, Step-Up in Basis
- Eliminate → Long-term strategic planning



Angelo J. Di Fusco
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Thank You

818.281.1699

difuscotax.com

angelo@difusco.com