
A MILESTONE CPAs PLAYBOOK

The Real Estate Investor's Tax *Strategy Vault.*

Cost segregation, REPS, 1031 exchanges,
opportunity zones, and the structures that hold them —
a working playbook for active portfolios.

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AN INTRODUCTION

Real estate is a tax-strategy asset. *First.*

A property generates cash flow — but the tax code is where most of the actual return is built. Investors who don't use the code aggressively are leaving 15-30% of their real return on the table every year. This playbook covers the moves we run for investors with active portfolios.

VAULT 1

Cost Segregation.

A cost segregation study reclassifies portions of a building from 27.5/39-year depreciation into 5, 7, and 15-year categories — accelerating deductions into the early years of ownership. On a \$2M residential rental, a study typically unlocks \$400K-\$600K of additional depreciation in Year 1 with bonus depreciation. The cost of the study is roughly \$5K-\$15K. The math wins when your effective marginal rate is 32%+ and you have passive income to absorb the loss — or you qualify as a real estate professional.

When it works:

- Purchased property valued \$750K+ (excluding land)
- Held for 3+ years going forward
- You can use the deduction (REPS, passive income, K-1 absorption)
- You haven't already depreciated it for years (lookback study still possible via Form 3115)

VAULT 2

Real Estate Professional Status (REPS).

REPS is the most powerful election available to real estate investors with non-real-estate income. Without REPS, rental losses are passive and only offset passive income. With REPS, they become non-passive — capable of offsetting W-2, business, or capital gain income. For a high-W-2 spouse with a real estate-active partner, this commonly unlocks \$100K+ in annual deductions.

The two tests (both required):

- **More than 750 hours** in real property trades or businesses during the year
- **More than half** of total personal services performed in real property trades or businesses

Plus you must materially participate in each rental — or elect to aggregate all rentals as a single activity. The election is made with the return, on a written statement. And documentation matters: contemporaneous time logs, calendars, and meeting records.

VAULT 3

1031 Exchanges + Reverse Exchanges.

A 1031 like-kind exchange defers capital gains tax on the sale of investment property when reinvested into like-kind property. The deadlines are unforgiving: 45 days to identify the replacement, 180 days to close. The reverse exchange (buying the replacement before selling the relinquished) is more complex but useful when timing won't align. State-level treatment varies — California chases the deferred gain into replacement properties owned by California residents.

VAULT 4

Holding Structures.

Single-Member LLC

Best for first 1-2 properties. Disregarded for tax, simple to file, limits personal liability. Each property in its own LLC for asset protection.

Holding Company over Property LLCs

For portfolios of 5+ properties. Centralizes ownership, simplifies estate transfer, can layer in family member ownership for gifting.

Land Trust + LLC

Privacy structure. Title held by land trust beneficially owned by LLC. Common in IL/FL; less common in CA.

Multi-Member LLC + Partnership

When taking on partners or financing requires it. Adds K-1 complexity but enables guaranteed payments and special allocations.

Series LLC (in states that allow)

One umbrella entity with internal series for each property. Simpler administration but state recognition is uneven — CA does not recognize it.

Self-Directed IRA / Solo 401(k)

Owns property inside a retirement account. Cash flow is tax-deferred but UBTI/UBIT can apply to leveraged property, and prohibited transactions are unforgiving.

VAULT 5

Specialty Strategies.

Opportunity Zones (QOZ)

Invest realized capital gains into a Qualified Opportunity Fund within 180 days, and the original gain is deferred to 2026. Hold the QOF investment for 10+ years and the appreciation on the QOF itself is tax-free. Best for investors with large capital gains and a 10-year hold horizon.

§179D — Energy-Efficient Commercial Buildings

Owners of energy-efficient commercial property (LEED-equivalent) can claim a deduction of up to \$5.81/sqft (2026, indexed). Particularly valuable for designers and architects of public buildings — they can be allocated the deduction.

Short-Term Rental Loophole

Properties with average guest stay of 7 days or less are treated as "active" rather than passive — meaning losses can offset W-2 and business income without needing REPS. Requires material participation and clean documentation.

Substantial planning opportunity for STR investors with high W-2 spouses.

Self-Rental Recharacterization

When you rent property to your own business, IRS rules can recharacterize the income and disallow loss treatment. Done correctly, the structure works; done wrong, it creates trapped losses. Structure with intent and documented terms.

NEXT STEP

Let's see if this fits your situation.

A complimentary 30-minute review.

This playbook is general guidance. Your specific situation — entity structure, income mix, family circumstances, and state nexus — determines which moves actually apply and what they're worth. We offer a complimentary 30-minute review where we look at your situation specifically and tell you what we'd do.

Schedule online: milestonecpas.com/contact-cpa-firm-in-pleasanton/

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