Kentucky Commercial Real Estate Conference

Commercial Real Estate Income Tax Update

Tuesday, October 28, 2025

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Your Guide Forward

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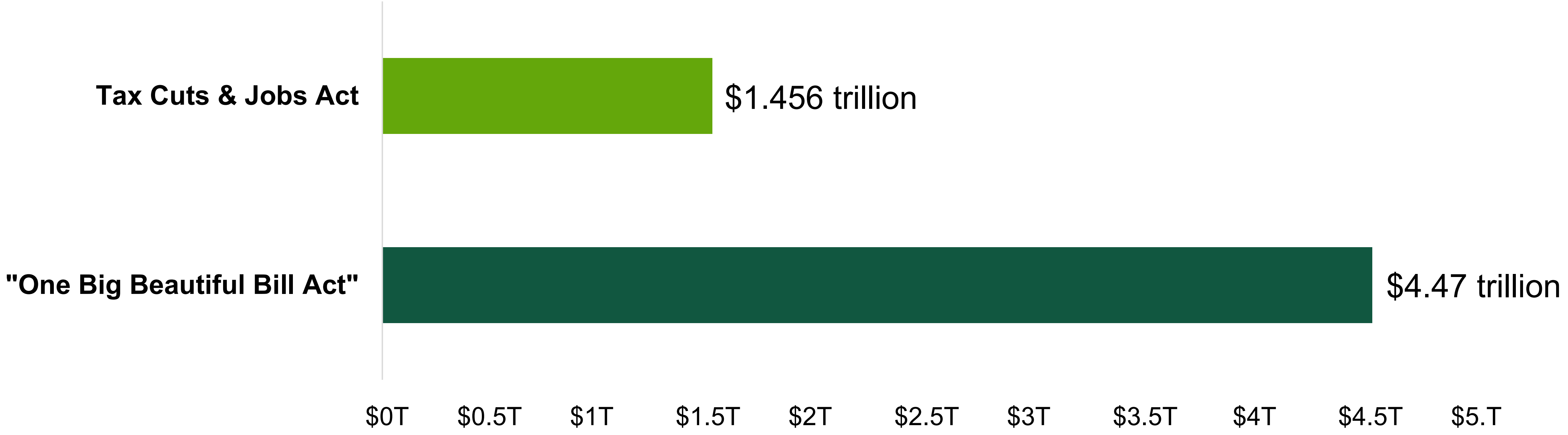
Today's Agenda

- Overview
- Business Tax
- Individuals, Trusts & Estates
- Inflation Reduction Act Provisions
- State & Local Tax Implications
- Next Steps

Overview

Overview

- Primarily a Tax Reform Bill
- Republican Support Only
- Cost of Tax Provisions (Current Law Baseline)



Business Tax

Business Provisions

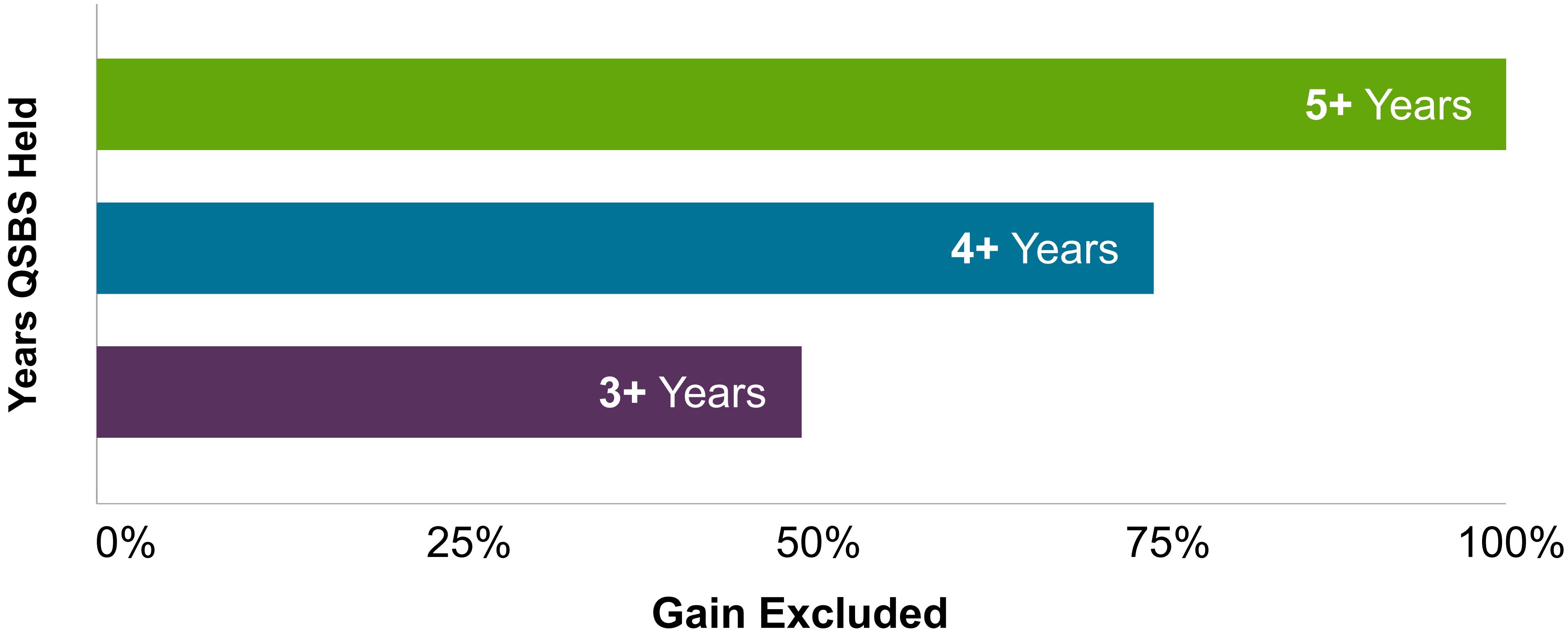
Bonus Depreciation

Business Interest Expense Limitation

Research & Experimental Expenditures

Small Business Provisions

- Section 179 Business Asset Expensing
- Section 1202 Qualified Small Business Stock (QSBS) Exclusion



Pass-through Entity Provisions

- **Not Included** – Changes to PTET
- Section 199A Qualified Business Income Deduction
- Excess Business Loss Limitation

Community Development Provisions

Opportunity Zones

Low-Income Housing Tax Credit

New Markets Tax Credit

A Closer Look at Opportunity Zones

Options

- Qualified Opportunity Fund (QOF)
- Qualified Rural Opportunity Fund (QROF)

Benefits

- Up to a 5-year deferral for recognition of gain
- **Permanent** 10% reduction in original referred gain for properties held at least 5 years (30% for QROF)
- **Permanent** exclusion of new gain on property held at least 10 years

Zone Designation Changes

- Decennial Redesignation – created a rolling nomination of new census tracts
- Initial decennial determination date – July 1, 2026
- Effective January 1, 2027 for 10 years
- Stricter Eligibility – Low-income community requirement
- No contiguous tract rule

PLANNING NOTE:
For existing census tracts, the time to make a qualifying investment will expire on December 31, 2026, absent redesignation.

New Deferral Timeline & Basis Boost

OLD RULE:

Deferral until December 31, 2026

NEW RULE:

Rolling five-year deferral from investment date

10% basis boost at end of deferral period

Applicable for investments acquired after 12/31/26

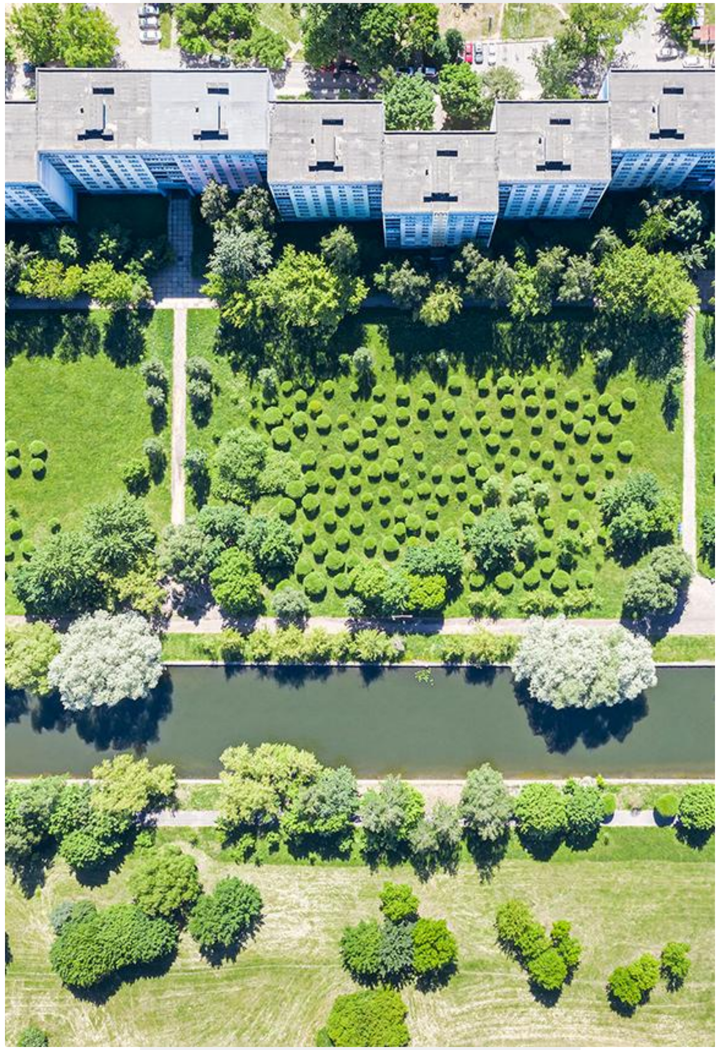
EXAMPLE:

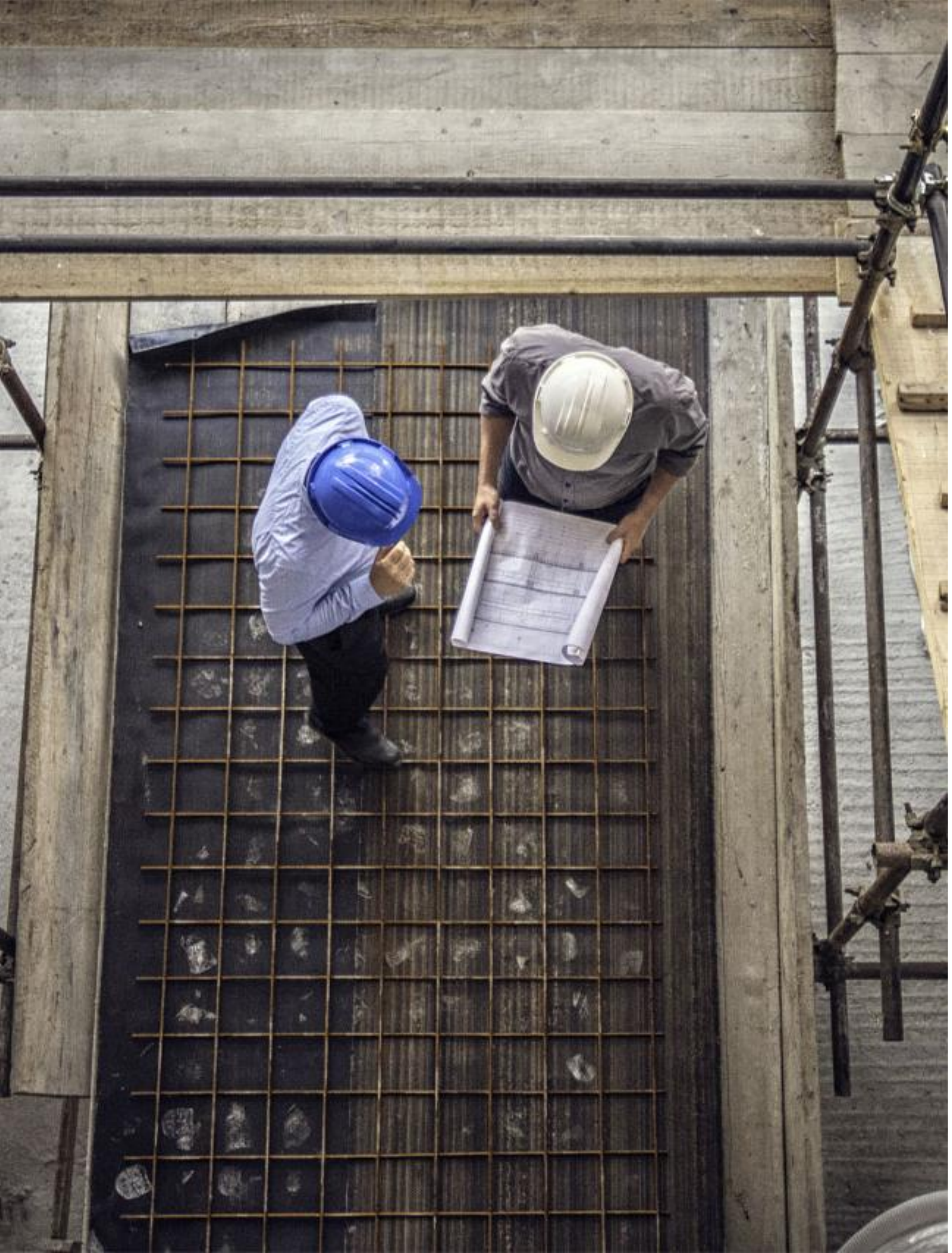
- **Qualifying deferred gain of $1M, assuming taxpayer held for five years, then the taxpayer would recognize $900k for federal tax purposes.**

Rural Area Investing

New Class of Qualified Opportunity Funds (QOF)

- **Rural QOFs** must hold at least 90% of assets in qualified OZ property or equity in a qualified OZ business operating in a rural tract (outside MSAs or with population under 50,000)
- **New 30% basis boost** at the end of the five-year deferral period
- **Substantial improvement** requirement drops to 50% of adjusted basis for existing property
- **Notice 2025-50 (issued 9/30/2025)**:
  - Formally defines rural OZs and identifies 3,309 qualifying zones
  - Formalizes for property in rural OZs, improvements meet the substantial improvement test if additions to basis exceed 50% (vs. standard 100%)





OZ Exit Changes

- Current OZ regulations require investor to sell on or before December 31, 2047

- Qualifying investments ***made after January 1, 2027***, are eligible for:
  - Step up to fair market value of OZ investment if sold after 10-year hold; or
  - Step up to fair market value of OZ investment on the 30-year anniversary
    - Investors no longer required to sell, however, any additional appreciation after the 30-year anniversary would be subject to tax when sold

Reporting Requirements

Reporting Requirements

- New and enhanced reporting requirements to Treasury for QOFs and QOZBs
- Provide transparency regarding type and location of investments
- Additional information will provide government economic impact data
- Imposes significant penalties for non-compliance

Penalties for non-compliance range from $10k - $50k depending on QOF Assets

Reporting Requirements – QOFs

- Mandatory Annual Reporting (includes but not limited to):
  - Asset composition
  - Investment timing
  - Compliance with 90% asset test
  - Location and nature of QOZ property
    - Number of residential units

- Penalties for non-compliance
  - Up to $10,000 per missed return
  - Up to $50,000 for QOF with assets > $10M

OBBBA allocated $15M to the IRS for enforcement and implementation of new rules

Reporting Requirements – QOZBs

- Business Activity Disclosure:
  - Percentage of tangible property used in active conduct of business
  - Employee location and payroll data
  - Number of residential units

New reporting requirements are effective for tax years after July 4, 2025.

Other Business Provisions

- Qualified Production Property
- Percentage of Completion Method
- IRA Incentive Phaseouts
- Information Reporting

Individuals, Trusts & Estates

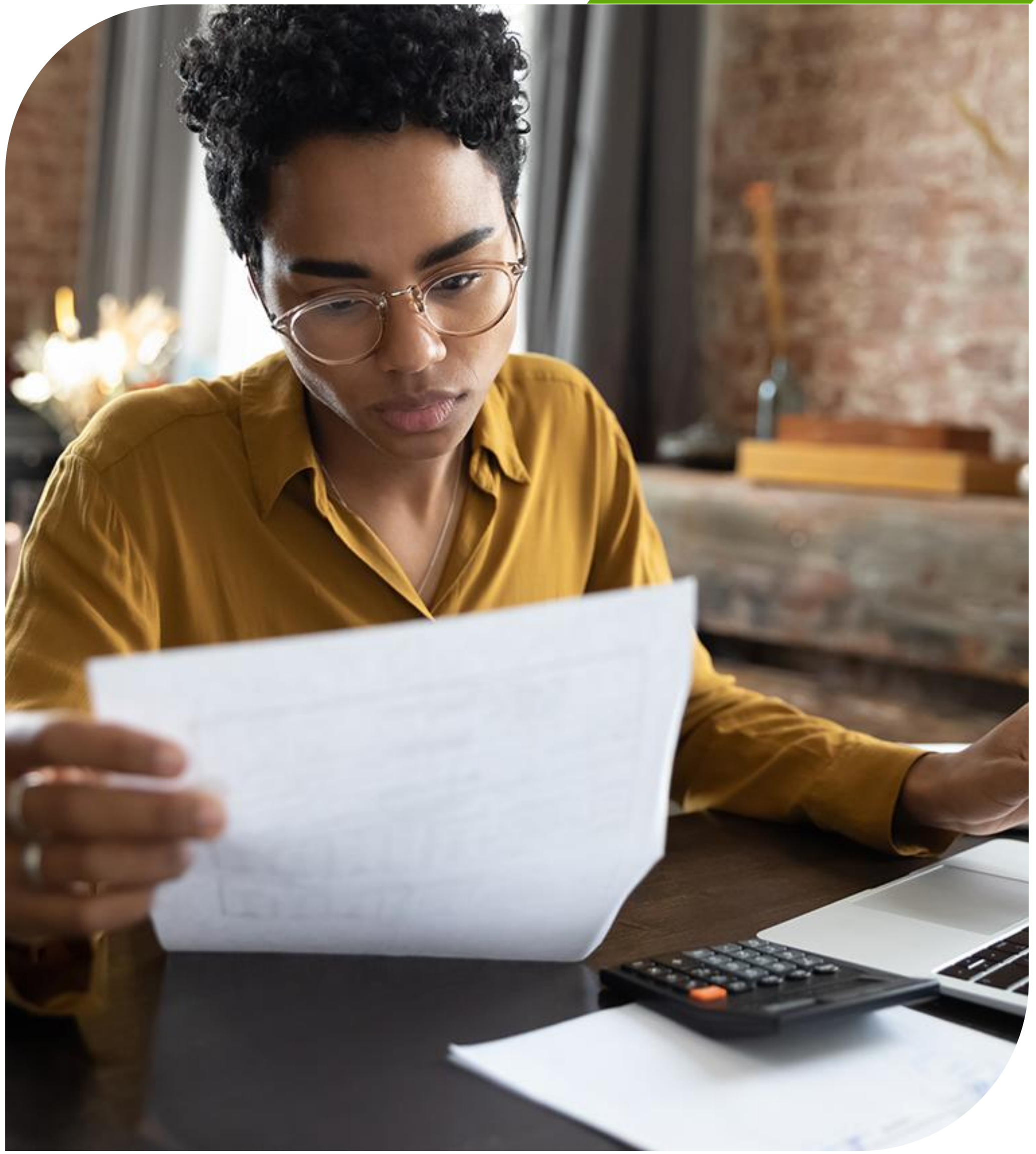
Individual Provisions – TCJA Extensions

- Tax Rates & Brackets
- Standard Deduction*
- Itemized Deductions
- Child Tax Credit*
- Child and Dependent Care Tax Credit*
- Employer Provided Educational Assistance

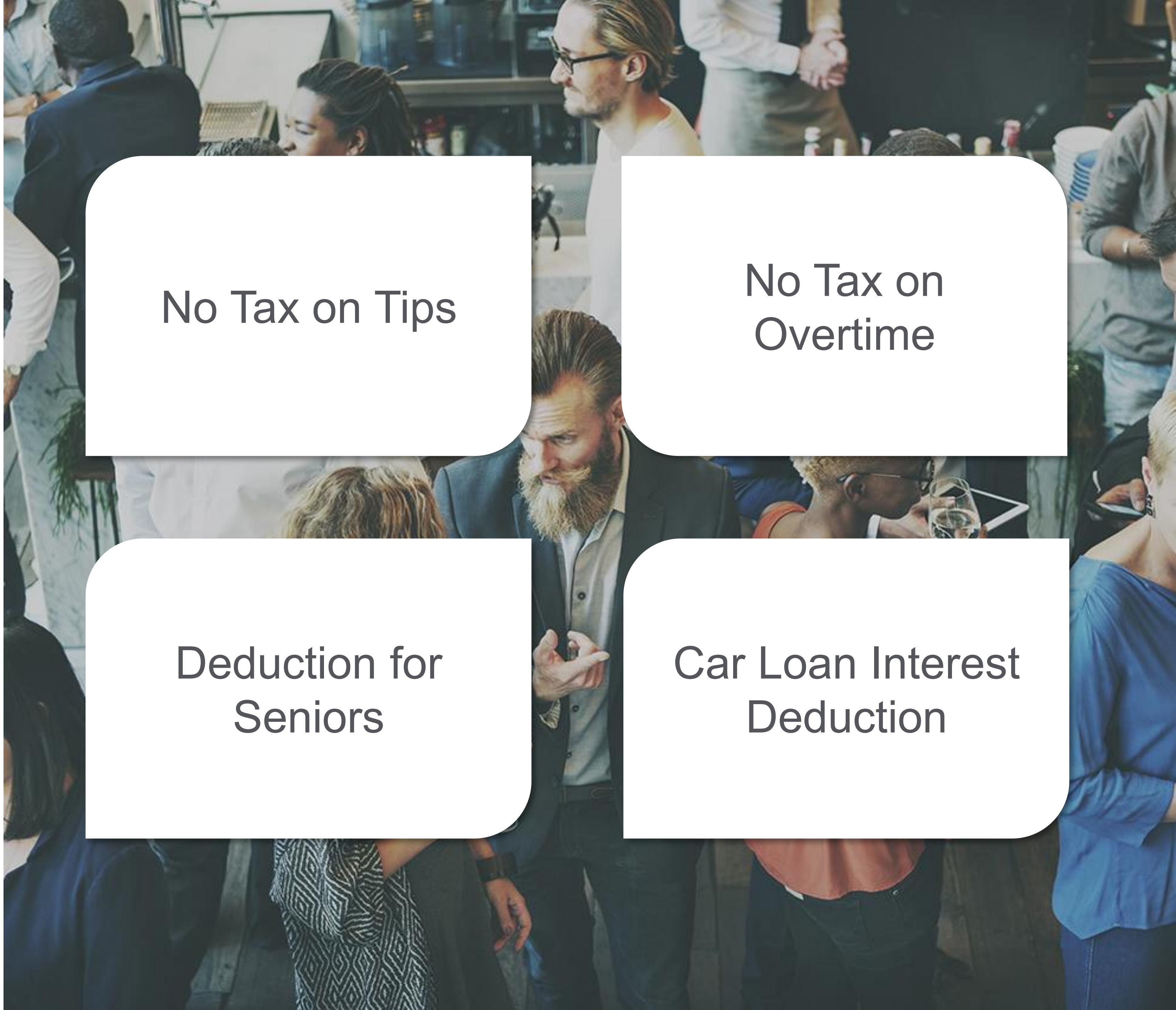
* Provisions with enhancements

Individual Provisions

- SALT Cap
- Alternative Minimum Tax
- Limitation on Itemized Deductions
- Gifting Provisions
- Trump Accounts



Temporary Provisions



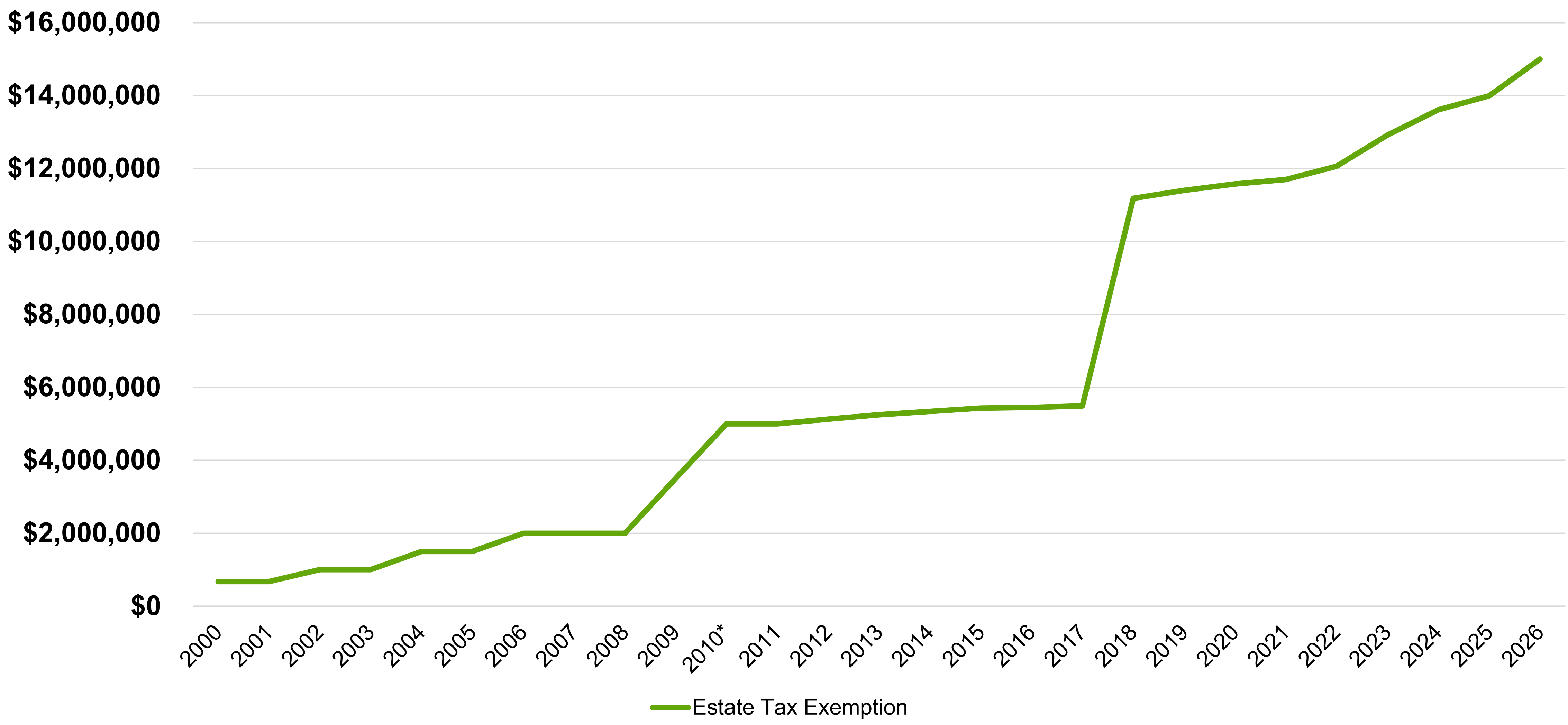
No Tax on Tips

No Tax on Overtime

Deduction for Seniors

Car Loan Interest Deduction

Estate Tax Exemption



Inflation Reduction Act Provisions

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Foreign Entity of Concern Restrictions

Solar and Wind Reductions

Transferability

Inflation Reduction Act Provisions

Credits & Incentives with Accelerated Termination Dates	
Business	▶ Clean Energy Investment Credit (48E) – solar & wind only ▶ Clean Energy Production Credit (45Y) – solar & wind only ▶ Advanced Manufacturing Production Credit (45X) – wind only ▶ Clean Hydrogen Credit (45V) ▶ Commercial Clean Vehicles Credit (45W) ▶ Alternative Fuel Vehicle Refueling Property (30C) ▶ New Energy Efficient Homes Credit (45L) ▶ Energy Efficient Commercial Buildings Tax Deduction (179D)
Personal	▶ Clean Vehicle Credit (30D) ▶ Previously Owned Clean Vehicle Credit (25E) ▶ Energy Efficient Home Improvement Property (25C) ▶ Residential Clean Energy Credit (25D)

State & Local Tax Implications

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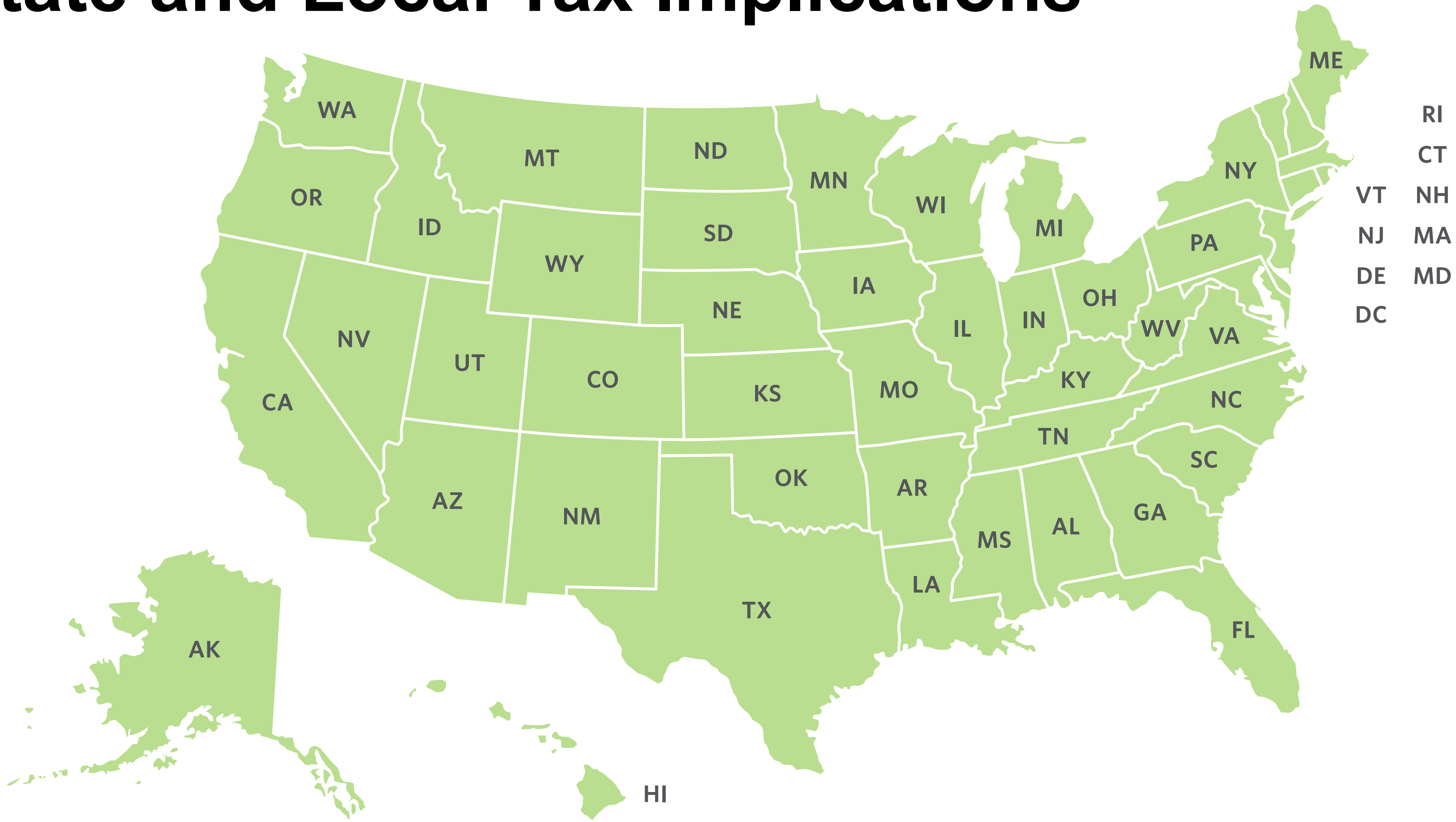

Next Steps

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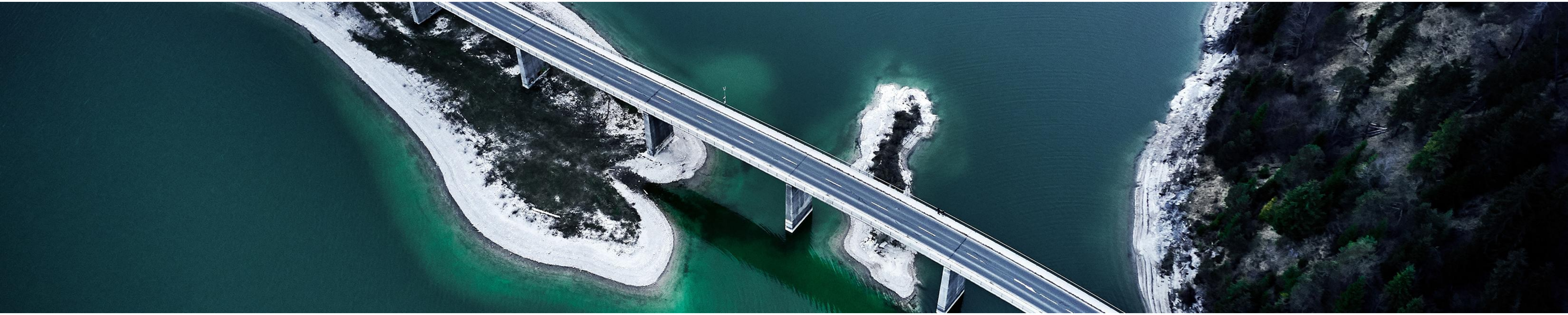

Engage in planning discussions

Guidance

Future Legislation

Questions

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