CLARION PARTNERS
by Franklin Templeton

Clarion Calls:
Enduring tax benefits of real estate

November 2026



U.S. real estate: the darling of the federal tax code

What you need to know

- ✓ U.S. real estate has historically benefited from a favorable federal tax framework
- ✓ Provisions in the tax code reward long-term investment growth
- ✓ Additional tax benefits were incorporated into recent legislation, ensuring permanent status for several real estate tax provisions

Key Existing Real Estate Tax Provisions

Tax Shielded Depreciation

- Investors can utilize various forms of return of capital (such as depreciation) to significantly reduce taxable income.

Advantageous Income Treatment

- Rental real estate can qualify for a 20% Qualified Business Income (QBI) deduction on earnings generated from the net operating income of the investment.

Capital Gains Deferral

- Tools such as Qualified Opportunity Zones (QOZ) and Section 1031 Exchanges allow investors to defer capital gains taxes, enhancing long-term portfolio growth.

Real Estate Tax Provisions Made Permanent

- **QOZ Program:** Reinstatement of sunsetting tax benefits and update to qualifying zones based on 2020 census.
- **QBI Deduction:** A 20% deduction for qualifying taxable income is now permanent.
- **100% Bonus Depreciation:** Businesses can fully deduct the cost of qualifying property placed in service after January 19, 2025; this can include machinery, technology, certain vehicles, furniture, and qualified improvements to real estate assets.

Source: One Big Beautiful Bill Act

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