NAR Issue Summaries

Federal Tax / Depreciation of Real Property

NAR Committee:

Federal Taxation Committee

What is the fundamental issue?

The current law depreciation rules are out of date and do not reflect the actual economic life of structures. The 27.5- and 39-year cost recovery periods for real property should be shortened.

I am a real estate professional. What does this mean for my business?

A more realistic rate of return on depreciable assets would make real estate a more attractive investment.

NAR Policy:

NAR supports a depreciable life for real estate that accurately reflects the economic life of the property. A 2001 NAR Working Group determined that a more realistic life would be about 22 to 24 years.

More recently, a 2015 study by the MIT Center for Real Estate concluded that both nonresidential and residential properties net of land depreciate at about 7 percent per year on average. This is significantly faster than previous estimates. In analyzing the MIT study, PricewaterhouseCoopers (PwC) equated the annual depreciable life suggest by the study to be about 20 years for nonresidential property, and about 19 years for residential property.

It is important to note that economic depreciation is more than just physical wear and tear but also includes adjustments to the value of real property caused by changes in tastes, new technology, and by improvements in the quality of new assets relative to old assets (known as obsolescence).

Opposition Arguments:

Opponents of NAR policy will generally be looking at maintaining or lengthening the depreciable period for real property for purposes of raising revenue that can be used to pay for other changes in the tax law, such as lowering tax rates.

Legislative/Regulatory Status/Outlook

While lengthening recovery periods for real property was considered in early debates over tax reform before the enactment of the Tax Cuts and Jobs Act of 2017, this concept did not make it into the final version of the bill that was enacted and depreciation for real estate remains much as it has been since 1987.

However, the One Big Beautiful Bill Act (OBBBA), which was signed into law on July 4, 2025, included several changes to depreciation that will impact real property investment, as follows:

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- The act permanently restores 100 percent bonus depreciation for qualifying property acquired and placed in service after January 25, 2025, and is applicable to most tangible property with a recovery period of 20 years or less. These can include:
  - Appliances, furniture, and carpets used in residential rental real estate.
  - Certain improvements made directly to land, such as fences, roads, and sidewalks.
  - Qualified improvement property (QIP) for the interior of nonresidential buildings.
  - Farm buildings, other than single-purpose agricultural structures.
- New 100 Percent Expensing for Qualified Production Property:
  - A temporary deduction added by OBBBA offers for non-residential real property used in certain manufacturing, production, or refining activities an immediate write off of the full cost of eligible U.S. factory and production facilities. To qualify, the property must be new, with construction starting between January 19, 2025 and before January 1, 2029, and placed in service in the U.S. before January 1, 2031.
- Increased Section 179 Expensing Limits:
  - For tax years beginning after 2024, the immediate expensing limit under Section 179 increases to $2.5 million, with the phaseout threshold rising to $4 million. Both limits are adjusted for inflation for tax years beginning after 2025.
  - Qualifiying property for Section 179 includes:
    - Qualified Improvement Property (QIP), including interior improvements made to a non-residential building after it was first placed in service, but does not include enlargements, elevators, or the internal structural framework of the building.
    - Roofs.
    - Heating, ventilation, and air conditioning (HVAC) property.
    - Fire protection and alarm systems.

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