Thought Leadership

'Big Beautiful' Bonus Depreciation Discussion Offers Lessons in Cost Segregation

The recent passing of the budget reconciliation bill–often referred to as the "One Big Beautiful Bill Act"–has broad implications across a range of industries and at least one element will greatly benefit commercial real estate–particularly with the right tax planning strategy.

By **Brian A. Lee, Sponsored By Kidder Mathews** | June 30, 2025 at 03:45 AM

This article was updated to reflect that President Donald Trump signed the bill into law on July 4, 2025.

After months of negotiating, lawmakers have finally passed the hotly debated budget reconciliation bill. One provision drawing attention in the commercial real estate sector is the reinstatement of 100% first-year bonus depreciation, most recently introduced under the 2017 Tax Cuts and Jobs Act (TCJA).

"This change, along with a cost segregation study, can identify massive first-year deductions against taxable income for anyone buying or building commercial or residential rental real estate," says **Ryan Begley**, EVP and Cost Segregation Manager, Valuation Advisory Services, at **Kidder Mathews**.

Bonus Benefits Abound

All qualified property placed into service after Jan. 19, 2025, through Dec. 31, 2029, is now eligible for 100% first-year bonus depreciation – the same full deduction allowed under the TCJA through 2022. With the former tax act phaseout schedule reducing bonus depreciation to 40% in 2025, the new legislation reverses that trend and extends this major tax benefit. For owner-users, this means the ability to significantly reduce their tax liability in the year they acquire assets, freeing up more cash to buy additional equipment and improve property.

The benefits don't stop with owners. Under the "qualified improvement property" specification, tenants can also take advantage of bonus depreciation. By utilizing a cost segregation study, they can identify nonstructural interior components within a tenant improvement project and deduct a significant portion of the build-out cost, according to Begley.

Real estate investors also stand to benefit. Bonus depreciation allows them to offset taxable income across their portfolio – or even ordinary income – helping reducetax liability and increase cash on hand for portfolio expansion.

Big Picture Savings

The new legislation can help property owners and tenants get more valuefrom cost segregation studies. This process breaks down a property into parts that can be depreciated faster, allowingtaxpayers to take larger deductions sooner and improve near-term cash flow. It works by identifying specific improvements to a building or land that qualify as quicker write-offs. However, as

Begley explains, not all parts of a property depreciate on the same schedule. Timing depends on how each element is used.
“By segregating and valuing these components, the taxpayer can take more depreciation deductions now, as opposed to over the typical depreciation schedule of the property,” Begley says. “Bonus depreciation, and specifically 100% first-year bonus depreciation, amplifies the depreciation acceleration in the first tax year, accomplishing near-term tax savings versus depreciating a property over a longer period of time.”

Real estate professionals should also know that cost segregation is not a tax “loophole,” and it doesn’t increase the risk of an audit. While a qualified accountant can help, it’s often worth bringing ina cost segregation specialist – someone with engineering expertise who can break down a property into detailed components. This level of detail allows taxpayers to maximize depreciation deductions while also creating a clear audit trail and a more thorough breakdown of assets.

Now that we have clarity on the final bill, keeping more of your business income – and expanding your options as a result – is a big, beautiful thing. Smart tax planning, including a cost segregation study to maximize depreciation benefits, can make that a reality.
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