



AMANDA TIHEY

The Steel City Agent · Keller Williams Exclusive

SOUTHWESTERN PENNSYLVANIA INVESTOR & HOMEOWNER SERIES

REAL ESTATE TAX STRATEGY GUIDE

1031 Exchanges · Capital Gains Tax · Depreciation ·
Deductions · Opportunity Zones — What Every
Pennsylvania Real Estate Owner Needs to Know

⚠ IMPORTANT DISCLAIMER

This guide is for **educational and informational purposes only** and does not constitute legal, tax, financial, or investment advice. Tax laws change frequently and vary based on individual circumstances. Always consult a **licensed CPA, tax attorney, or qualified financial advisor** before making any tax-related real estate decisions. Neither Amanda Tihey nor Keller Williams Exclusive assumes any liability for actions taken based on the information in this guide.

Presented by

Amanda Tihey, REALTOR®

TheSteelCityAgent.Com · 412-852-7776

Consult a licensed CPA or tax
attorney for advice specific
to your situation.

Capital Gains Tax on Real Estate

When you sell real estate for more than you paid, the profit is generally subject to capital gains tax. Understanding the rules — and the exemptions — can mean tens of thousands of dollars in your pocket.

Short-Term Capital Gains

Property held LESS than 12 months

10–37%

Taxed as **ordinary income** — at your regular federal income tax bracket. This is the least favorable outcome. Flippers who sell quickly are often hit with this rate.

Also add:

Self-employment tax (flippers) + 3.8% Net Investment Income Tax (NIIT) if income exceeds \$200K single / \$250K married + Pennsylvania state tax (3.07%)

Long-Term Capital Gains

Property held MORE than 12 months

0%, 15%, or 20%

Significantly lower than ordinary income rates. The rate depends on your total taxable income for the year. Most middle-income investors pay **15%** federally.

2024 Federal Brackets (approx.):

0%: Single <\$47K / MFJ <\$94K
15%: Single \$47K–\$518K / MFJ \$94K–\$583K
20%: Above those thresholds

The Primary Residence Exclusion (Section 121)

One of the most powerful tax breaks in the entire tax code

Exclusion Amount

\$250K / \$500K

Single / Married Filing Jointly

Requirements to Qualify:

- You owned the home for at least 2 of the last 5 years
- You lived in the home as your primary residence for at least 2 of the last 5 years
- You have not used this exclusion in the past 2 years
- The 2 years of ownership and residency do NOT have to be consecutive

Example:

A married couple buys a Pittsburgh home for **\$200,000**, lives there 4 years, and sells for **\$480,000**.

Gain = **\$280,000**

Exclusion = **\$500,000**

Federal capital gains tax = \$0

Pennsylvania still taxes the gain at 3.07% — the federal exclusion does not apply at the state level.

Pennsylvania Capital Gains — What's Different

Pennsylvania does **not** have a preferential long-term capital gains rate. All capital gains in PA are taxed as ordinary income at a flat **3.07%**. PA also does **not** conform to the federal primary residence exclusion — you must pay PA tax on the full gain regardless of how long you lived in the home. However, PA **does** allow you to deduct your cost basis improvements. Keep records of every capital improvement to reduce your PA taxable gain. Consult a PA CPA for specifics.

The 1031 Exchange — Defer Taxes Indefinitely

Section 1031 of the IRS code allows real estate investors to defer capital gains taxes when they sell an investment property — as long as they reinvest the proceeds into a "like-kind" replacement property. Done correctly, you can build generational wealth while deferring taxes indefinitely.

How a 1031 Exchange Works — Step by Step

1

Sell Your Property

Close on the sale of your investment property. Do NOT touch the proceeds — they must go directly to a Qualified Intermediary (QI), not to you.

2

Hire a QI First

A Qualified Intermediary must be engaged BEFORE closing. This cannot be you, your agent, your attorney, or your CPA. Use a neutral third-party QI service.

3

45-Day ID Window

From the closing date, you have exactly 45 days to formally identify up to 3 potential replacement properties in writing to your QI. The clock does not stop.

4

180-Day Close Window

You must close on your replacement property within 180 days of selling (not 180 days from the 45-day deadline — the same starting clock). Both deadlines are hard.

5

Equal or Up

To defer 100% of your gain, buy equal to or greater in value and reinvest all of the equity. Buying down creates taxable "boot" on the difference.

✔ WHAT QUALIFIES

- Investment or business-use real property only
- Residential rentals, commercial, land, industrial
- Vacation rental if used as rental (not personal use)
- "Like-kind" is broad — any US real property for any US real property
- Delaware Statutory Trusts (DSTs) count as replacement property
- Tenants-in-Common (TIC) interests also qualify

✘ WHAT DOES NOT QUALIFY

- Your primary residence (see Section 121 instead)
- Fix-and-flip properties (dealer property — intended for sale)
- Foreign property exchanged for US property
- Stocks, bonds, partnership interests, or business assets
- Property held for personal use (vacation home used primarily by you)
- Exchanges between related parties require extra scrutiny

🏠 Example: Pittsburgh Investor — 1031 in Action

Sell rental duplex for

\$380,000

Original purchase: \$180,000

Capital gain

\$200,000

Taxable without 1031

Tax owed (no 1031)

~\$40,000+

At 20% federal + PA 3.07%

With 1031 — buy replacement

\$400,000

Reinvest all proceeds via QI

Tax deferred

\$40,000+

Rolls into basis of new property

Net capital available

\$380,000

Full equity working for you

Reverse 1031 Exchange

Buy the replacement property first, then sell the relinquished property — within 180 days. More complex and expensive, but useful in competitive markets where you need to move fast on a replacement.

Improvement 1031 Exchange

Also called a "build-to-suit" exchange. Allows you to use exchange funds to improve a replacement property during the exchange period. Useful when you can't find an equal-value property in the market.

Depreciation, Deductions & Other Tax Strategies

The tax code is loaded with real estate benefits that most homeowners and investors underutilize. Here's what you should know — and what to bring to your CPA.

Depreciation (Section 168)

The "phantom deduction" that shelters real income from taxes

Residential Recovery Period

27.5 years

Commercial: 39 years

The IRS allows rental property owners to deduct the cost of the **building** (not land) over 27.5 years — even though the property may be appreciating in value. This creates a "paper loss" that offsets rental income.

Example:

You buy a rental for \$250,000. Land value = \$50,000.
Building value = \$200,000.

Annual depreciation = $\$200,000 \div 27.5 = \$7,272/\text{year}$
This deduction reduces your taxable rental income every year — even if the property cash flows positively.

Key Depreciation Rules:

- Land is NOT depreciable — only the structure
- Begins when property is "placed in service" (available to rent)
- Cost Segregation can accelerate depreciation into early years
- Bonus Depreciation: certain components may qualify for 60%+ deduction in year 1 (under current law — confirm with your CPA)
- Depreciation Recapture: when you sell, deducted depreciation is "recaptured" and taxed at 25% — a key reason 1031 exchanges are powerful

Rental Property Deductions — What's Deductible

OPERATING EXPENSES

- Property management fees
- Repairs and maintenance
- Landscaping and cleaning
- Advertising and listing fees
- Professional services (CPA, attorney)
- Insurance premiums

OWNERSHIP COSTS

- Mortgage interest
- Property taxes
- HOA fees (if applicable)
- Depreciation (building value \div 27.5)
- Loan origination fees (amortized)
- Points paid on mortgage (amortized)

TRAVEL & OTHER

- Mileage to and from your property
- Home office (if managing from home)
- Subscriptions (landlord software, MLS)
- Phone/internet (business-use portion)
- Continuing education related to real estate
- Meals during business-related property visits (50%)

Section 179 Deduction

Allows immediate expensing of certain property improvements — appliances, HVAC, flooring — in the year they're placed in service, rather than depreciating over years. Subject to annual limits and phase-outs. Ask your CPA if your rental improvements qualify.

Opportunity Zones

Invest capital gains into a Qualified Opportunity Fund (QOF) that holds property in a designated Opportunity Zone. Defers the original gain AND can eliminate tax on new appreciation after 10 years. Allegheny County has designated zones — ask your CPA if a target property qualifies.

Real Estate Professional Status

If you spend more than 750 hours/year AND more than half your working time in real estate activities, you qualify as a Real Estate Professional. This removes the \$25,000 passive loss limitation — unlocking massive depreciation deductions against W-2 or other active income.

REPS & Short-Term Rental Loophole

Short-term rental properties (avg. stay under 7 days) may be treated as active — not passive — income. Combined with cost segregation and bonus depreciation, some investors create large paper losses to offset W-2 income. High-scrutiny — requires meticulous documentation. CPA is essential.

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Tax rules are complex, change frequently, and apply differently depending on your individual income, filing status, property type, holding period, state of residence, and other personal circumstances. **Nothing in this guide should be relied upon as a substitute for personalized advice from a licensed CPA, enrolled agent, tax attorney, or qualified financial advisor.**

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REAL ESTATE STRATEGY STARTS BEFORE THE TRANSACTION

The Right Move at the Right Time Changes Everything.

Tax strategy in real estate isn't just an accounting issue — it's a deal structure issue. Whether you're planning a 1031 exchange, deciding between a sale and a refinance, or timing a listing to maximize your primary residence exclusion, the decisions happen before the contract is signed.

Amanda works alongside your CPA and tax advisor to ensure the real estate execution aligns with your tax strategy — from offer terms to closing date selection to how title is held.

Reach Amanda



CELL / TEXT

412-852-7776



OFFICE

412-682-0120



EMAIL

thesteelcityagent@gmail.com



WEBSITE

TheSteelCityAgent.Com



FACEBOOK

Amanda Tihey



INSTAGRAM

@thesteelcityagent

How Amanda Supports Tax-Smart Real Estate Decisions:

- ✓ Structuring timing of sale to meet 121 exclusion requirements
- ✓ Identifying properties eligible for 1031 exchange replacement
- ✓ Helping investors find and evaluate Pittsburgh-area Opportunity Zone properties
- ✓ Connecting clients with SWPA-based CPAs experienced in real estate
- ✓ Advising on how title is held (individual, LLC, trust) — impacting tax treatment
- ✓ Providing comps and market data to support cost basis documentation
- ✓ Coordinating closing timelines to meet 1031 exchange deadlines



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Moving you from where you are now... to where you want to be!™