CASE STUDY

Mitigating Taxable Income

How one investor improved after-tax cash flow while remaining invested in real estate.

While generating strong cash flow is often a sign of a successful portfolio, it can also create an unintended challenge: increasing taxable income.

This investor had built a substantial real estate portfolio that produced reliable annual cash flow and long-term appreciation. However, a growing portion of that income was being redirected toward taxes each year, reducing the amount of capital available for reinvestment and future growth.

The objective was not simply to lower taxes. It was to improve overall portfolio efficiency while preserving income, maintaining real estate exposure, and supporting long-term wealth accumulation.

CLIENT BACKGROUND

- **Long-time real estate investor** with a diversified portfolio of income-producing properties
- Approximately **$500,000** in annual passive income
- Properties delivering **strong cash flow** and long-term appreciation
- Seeking ways to **improve after-tax cash flow** without disrupting the existing portfolio

THE CHALLENGE

Each year, a meaningful portion of the portfolio's income was being directed toward taxes.

The client wanted to identify opportunities to offset taxable income while remaining invested in real estate and preserving long-term growth potential.

The objective was not simply to reduce taxes—
it was to improve overall portfolio efficiency.

THE STRATEGY

After reviewing the client's income profile and tax exposure, we identified bonus depreciation investments designed to generate significant first-year deductions.

Approximately **$235,000** was allocated across two bonus depreciation funds structured to create accelerated depreciation while maintaining exposure to professionally managed real estate.

THE OUTCOME

The depreciation generated by the investments totaled approximately **$500,000** during the first year, creating deductions that substantially offset the client's passive income.

Rather than directing a large portion of annual cash flow toward taxes, the client retained more capital for future investment opportunities.

THE RESULT

- Approximately **$500,000** of deductions generated
- Significant reduction in taxable passive income
- Improved after-tax cash flow
- More capital available for reinvestment
- Maintained real estate exposure
- Preserved long-term growth potential

KEY TAKEAWAY

Tax Savings Can Become Investment Capital

For investors with substantial passive income, bonus depreciation strategies may provide an opportunity to reduce taxes, improve after-tax cash flow, and keep more capital working toward long-term financial goals.

GENERAL DISCLOSURE:

All investing involves risk of loss of some or all principal invested. Past performance is not indicative of future performance. There can be no guarantee that any investment or strategy will achieve its stated objectives. Speak to your tax and/or financial professional prior to investing. Securities and advisory services through Emerson Equity LLC, member FINRA and SIPC and a registered investment adviser. Emerson is not affiliated with any other entity identified herein.

REAL ESTATE / 1031 RISK DISCLOSURE:

- **There is no guarantee** — that any strategy will be successful or achieve investment objectives.
- **Potential for property value loss** — All real estate investments have the potential to lose value during the life of the investments.
- **Change of tax status** — The income stream and depreciation schedule for any investment property may affect the property owner's income bracket and/or tax status. An unfavorable tax ruling may cancel deferral of capital gains and result in immediate tax liabilities.
- **Potential for foreclosure** — All financed real estate investments have potential for foreclosure.
- **Illiquidity** — These assets are commonly offered through private placement offerings and are illiquid securities. There is no secondary market for these investments.
- **Reduction or Elimination of Monthly Cash Flow Distributions** — Like any investment in real estate, if a property unexpectedly loses tenants or sustains substantial damage, there is potential for suspension of cash flow distributions.
- **Impact of fees/expenses** — Costs associated with the transaction may impact investors' returns and may outweigh the tax benefits.
- **Stated tax benefits** — Any stated tax benefits are not guaranteed and are subject to changes in the tax code. Speak to your tax professional prior to investing.