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Depreciation isn’t free.

It’s a loan from Uncle Sam.

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The IRS allows us to take a depreciation deduction based on the fact that tangible property, like buildings, deteriorate over time.

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But when we sell the property, we have depreciation recapture to include as income.

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There are 3 main different types of depreciation recapture for real estate investors:

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1) Section 1245 Recapture: this is for 5 and 7-year property which is taxed at ordinary income tax rates.

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2) Section 1250 Recapture: the bonus depreciation in excess of straight-line over 15-year property which is taxed at ordinary income tax rates as well.

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3) Unrecaptured Section 1250 Gain:
this is for 27.5 or 39-year property or 15-year property not in excess of straight line which is taxed at a maximum of 25% tax rate

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This does not include the gain above the cost basis, which is capital gains.

That tax rate will depend on whether it is a ST or LT capital gain.

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And depreciation recapture never goes away.

I get this question a lot.

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But there are ways to avoid depreciation recapture such as a 1031 exchange.

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