



# KEEP MORE!

**\$SAVE ON TAXES\$**

**A POCKET GUIDE TO INVESTING AND  
SAVING TAXES FOR HIGH INCOME EARNERS**

**VINNEY (SMILE) CHOPRA**

# KEEP MORE!

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*The Accredited Investor's Pocket Guide  
to Hotels, the Tax Code & Building a Legacy*

**VINNEY (SMILE) CHOPRA**

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# Contents

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Disclaimer

Dedication

Why I Wrote This

How to Use This Book

## **PART I — THE PROBLEM HIDING IN PLAIN SIGHT**

Chapter 1 — The Tax Drag No One Budgets For

Chapter 2 — It's Not a Trap. It's a Treasure Map.

Chapter 3 — The Two Buckets That Change Everything

## **PART II — THE TOOLS, IN PLAIN ENGLISH**

Chapter 4 — Depreciation: The Phantom Expense That Pays You Real Money

Chapter 5 — Bonus Depreciation & the Big Reset

Chapter 6 — Cost Segregation, Demystified

Chapter 7 — The Blind Spots Chapter

Chapter 8 — Why Hotels? Cash Flow Meets the Code's Sweet Spot

Chapter 9 — The Magic of the K-1

Chapter 10 — Turning Passive Into Active: The GP-to-LP Strategy

Chapter 11 — 1031s, Opportunity Zones & the Art of the Deferral

Chapter 12 — The Legacy Play: Step-Up in Basis

## **PART III — THE ADVANCED TOOLKIT**

Chapter 13 — The Spouse Strategy & Real Estate Professional Status

Chapter 14 — When the Bill Comes Due: Depreciation Recapture

Chapter 15 — Your Retirement Accounts as a Buyer

Chapter 16 — Two More Levers: QBI & the State-Tax Workaround

## **PART IV — BEFORE YOU WIRE A DOLLAR**

Chapter 17 — How a Hotel Syndication Actually Works

Chapter 18 — What Could Go Wrong (and How We Plan for It)

Chapter 19 — One Deal, Start to Finish: A Full-Cycle Case Study

## **A FINAL WORD**

Your Next Step — Keep More, Build a Legacy

An Invitation: The Moneil Elite Accredited Investors Club

## **FREQUENTLY ASKED QUESTIONS**

## **GLOSSARY — THE LANGUAGE OF THE DEAL**

# Disclaimer

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## *Keep More*

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First Edition

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Tax laws change, and they apply differently to every person's situation. The examples here are illustrative and simplified. Before acting on anything you read, consult your own CPA, tax attorney, and financial and legal advisors, who can apply current law to your specific facts. The author and publisher make no guarantee of any financial result and disclaim any liability arising from the use of this information.

# Dedication

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To Kanchan — my wife, my partner, my steady center. None of this exists without you. You believed in the dream before it had any proof, you carried our family through the lean years without losing your smile, and you have made every success sweeter and every setback survivable. This book, like everything I've built, is yours as much as mine.

To my daughter, Monica, and my son, Neil — you are the reason "legacy" stopped being a word in a book and became the work of my life. Everything in these pages is really just a long letter to you: build wisely, give generously, and never forget where we come from.

To my parents, grandfather and my uncle who gave me my values long before they could give me anything else, and who taught me that character is the only inheritance that can never be taxed away.

To the country that took in a young man with a few dollars, a suitcase, and a stubborn faith — and dared him to build something. America, you kept your promise. I have spent my life trying to be worthy of it.

To my Mastermind Family — the valued investors, partners, and students who trusted me with their capital and their dreams. You are not my clients; you are my extended family. Your trust is the honor of my career.

And above all, to God, and to the timeless wisdom of the Hanuman Chalisa and Bhagavad Gita — *do your work with devotion, and release your attachment to the fruits*. Every door that ever opened, every blessing I've been given, I receive with gratitude and an open hand.

# Why I Wrote This

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I came to America with a few dollars in my pocket and a willingness to knock on doors — and I do mean doors. I sold encyclopedias and Bibles one living room at a time. I learned then what I still believe now: opportunity in this country is real, but it rewards the people who take the time to understand the rules.

Decades and more than thirty full-cycle deals later, here is the most expensive habit I see successful people fall into. It isn't a bad investment. It's overpaying their taxes — quietly, legally, and unnecessarily — year after year, simply because no one ever sat them down and showed them the rules the wealthy already use.

This is not a loophole book. There are no schemes here, and no gray areas I'd be nervous to explain to my own grandchildren. Everything in these pages is written into the tax code on purpose, because the government *wants* certain things built — housing, jobs, energy, and yes, hospitality. When you help provide them, the code says thank you.

I wrote this small book because the best ideas don't need three hundred pages. They need to be clear. So, I gathered what my team and I have taught from stages, from slide decks, and across dinner tables at Blackhawk, California and across USA and I made it something you can hold in one hand and put to work this year.

Read it with a pen. Argue with it. Then take just one idea to your financial advisor, and watch what happens.

*God bless you. Smile and Succeed*









# How to Use This Pocket Guide

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This is a pocket guide, not a textbook. Read it cover to cover or open to whatever question is keeping you up at night — every chapter starts with a real question I hear from investors and family offices.

As you read, you'll meet six little signposts again and again. Here's what each one means:

-  **IN PLAIN ENGLISH** — a one-line translation whenever a piece of jargon shows up. No decoder ring required.
-  **RUN THE NUMBERS** — a clean formula with a worked example, so you can see exactly how it works.
-  **CPA BLIND SPOT** — the move, the election, or the code section that even good advisors often overlook. This is the heart of the book.
-  **CASE STUDY** — a real-world-style walkthrough of how the idea plays out in an actual deal.
-  **SMILE & SUCCEED** — a short note from me on the mindset behind the math.
-  **ASK YOUR ADVISOR** — a reminder, on any page with numbers, that your CPA gets the final word on your situation.

That's it. Let's begin where the money quietly leaks out.

# **PART I – THE PROBLEM HIDING IN PLAIN SIGHT**

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# Chapter 1 — The Tax Drag No One Budgets For

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*"Why am I working this hard just to give so much of it to the IRS?"*

I've heard this question across a hundred dinner tables, usually said quietly, almost like a confession. A surgeon says it. A founder who just sold her company says it. A family that's been wealthy for two generations says it. They've done everything right — built the practice, grown the business, picked good investments — and yet every April they watch an enormous slice walk out the door.

Here is the uncomfortable truth most people never sit with: **for a high earner, taxes are the single largest expense of your entire life.** Bigger than your home. Bigger than every car you'll ever buy. Bigger than putting all your children through college, combined.

And almost no one budgets for it.

You'll spend weeks researching a kitchen remodel. You'll negotiate hard on a car. But the line item that's larger than all of them put together — the one with the silent partner who takes a third to a half off the top and contributes nothing to running your business — that one, most people just accept.

**IN PLAIN ENGLISH** *Marginal vs. effective rate:* your **marginal** rate is what you pay on your next dollar earned (for many high earners, that's a top federal rate north of 37%, before

state taxes). Your **effective** rate is what you pay across all your income. The wealthy obsess over lowering both — legally.

Most investors pour their energy into raising their *return*. They'll switch advisors over one percentage point of yield. Meanwhile, a far larger number — the percentage lost to taxes — sits there untouched, year after year, quietly compounding against them.

### RUN THE NUMBERS

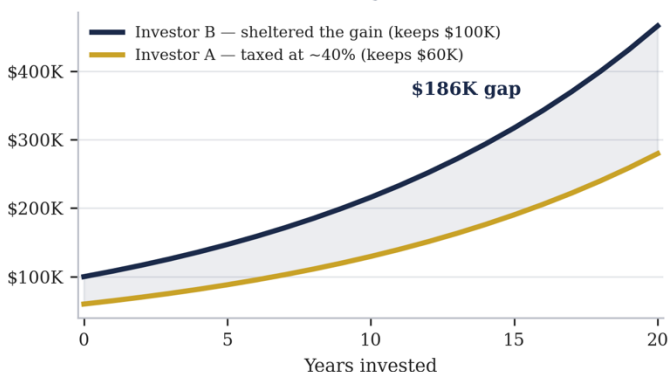
Imagine two investors each earn a \$100,000 gain.

**Investor A** pays tax at roughly 40% → keeps **\$60,000** to reinvest.

**Investor B** legally shelters the gain → keeps **\$100,000** to reinvest.

Now let both compound at 8% for 20 years. Investor B isn't 40% ahead. Because the *full* amount compounded from day one, Investor B ends up with **dramatically** more — the gap widens every single year.

#### The Tax Drag, Compounded Same 8% return for 20 years



*That's the tax drag. It isn't a one-time cut. It's a leak in the hull that compounds for decades.*

*Two investors, the same 8% return. The only difference is what the tax code let them keep working from day one.*

This is why the difference between two equally smart, equally hardworking people often comes down not to what they earned, but to **what they were allowed to keep and put back to work.**

### **CPA BLIND SPOT**

Here's a distinction that costs people fortunes: **most CPAs do compliance, not planning.** Compliance means recording what already happened and filing it correctly. Planning means structuring your year *before* it happens so less is owed in the first place. A wonderful, ethical CPA can do a flawless job filing a return — and still never call you in October to say, "Here's what we should do before December 31st." If no one is doing *planning*, you are almost certainly overpaying. That's not a knock on your CPA. It's a job that's simply gone unfilled.

### **SMILE & SUCCEED**

*Money you keep isn't about greed. It's about stewardship. Every dollar you legally protect is a dollar that can serve your family, your faith, your community, and the next generation. The IRS will always get its fair share — our job is to make sure "fair" doesn't quietly become "everything."*

So, no — you're not imagining it, and you're not doing anything wrong by asking the question. You're working exactly as hard as you think you are. The leak is real. The good news fills the rest of this book: the very tax code that feels like it's working against you was, in large part, written to work *for* you.

Let me show you how to read it.

**ASK YOUR ADVISOR** *Your actual brackets, state taxes, and effective rate are specific to you. Use these figures to start the conversation, not to file.*

## Chapter 2 — It's Not a Trap. It's a Treasure Map.

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*"Isn't the tax code just one big trap designed to take my money?"*

I understand why it feels that way. The code is thousands of pages long, written in a language only specialists seem to speak. But here's a secret hiding in plain sight: **the vast majority of those pages don't exist to take your money. They exist to tell you how to keep it.**

The portion of the tax code that says "you owe tax" is remarkably short. Almost everything else is a long, detailed list of *incentives* — deductions, deferrals, and credits the government offers you in exchange for doing things it wants done.

Think about what that means. The government can't build all the housing the country needs. It can't open all the hotels, drill all the energy, plant all the farms, or fund all the small businesses. So instead of doing it, it makes you a deal: **"You go do it — put your capital and your risk on the line — and we'll reduce your taxes as our thank-you."**

The wealthy figured this out a long time ago. They stopped reading the code as a list of punishments and started reading it as a *menu*. Every incentive is a dish the government is practically begging you to order.

### **IN PLAIN ENGLISH** *Deduction vs. credit: a deduction*

lowers the income you're taxed on (a \$100,000 deduction in a 40% bracket saves you about \$40,000). A **credit** lowers your tax bill dollar-for-dollar (a \$100,000 credit saves you \$100,000). Real estate's superpower is generating very large *deductions* — often without spending new cash, as you'll see in Chapter 4.

Here's the part that stings a little, but matters: **the code treats earned income and invested income very differently.** The person who only earns a paycheck has the fewest tools available — taxes come out before the money even hits the bank. The investor and the business owner, the people *doing* the things the government wants done, have a whole toolbox the W-2 earner never gets handed.

### **CPA BLIND SPOT**

Many high earners assume that because they make a lot, they've "maxed out" what's possible — they've done the 401(k), maybe a backdoor Roth, and that's that. Those are fine, but they're the *small* tools, capped at modest dollar amounts. The *large* tools — the ones measured in hundreds of thousands of dollars of deductions — live in the world of real assets: real estate, energy, equipment. If your tax strategy stops at retirement accounts, you've been handed a teaspoon and told it's the whole kitchen.

This reframe is the foundation of everything that follows. We are not looking for loopholes. We are simply choosing to *accept the government's standing offers* — the ones written down, on purpose, for anyone willing to provide what the country needs.

And of all the items on that menu, one combines strong cash flow, powerful deductions, and a special standing in the code that most real estate doesn't have. That's hospitality — hotels.

We'll get there. But first, you need to understand the single rule that determines whether all these deductions can actually reach *your* tax return.

**SMILE & SUCCEED**

*Abundance isn't wishful thinking — it's a lens. When you stop seeing the tax code as your opponent and start seeing it as a set of invitations, the whole game changes. The same document that frightens most people becomes a treasure map for the few who read it.*

**ASK YOUR ADVISOR** *Which incentives you qualify for depends on your income type, entity structure, and participation. Your advisor maps the menu to your plate.*



## Chapter 3 – The Two Buckets That Change Everything

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*"If real estate creates these big deductions, why can't I just use them against my income from my job or my practice?"*

This is the question that separates people who *understand* tax strategy from people who've only *heard* about it. And the answer comes down to two buckets.

The tax code generally sorts your income into separate categories — and the most important split, for our purposes, is **active** versus **passive**.

- **Active (or ordinary) income** is what you earn by showing up and doing the work: your salary, your medical practice, your law firm, the business you run day to day.
- **Passive income** is what you earn from an activity you *don't* materially run — most famously, money from a rental property or your stake as a limited partner in someone else's deal.

**IN PLAIN ENGLISH** *Material participation*: the IRS's test for whether you're "active" in an activity — essentially, are you regularly, substantially involved in running it? If yes, it's active. If you just wrote a check and collect distributions, it's usually passive.

Now here's the rule that surprises people, and it's the reason for that frustrated question above:

**Generally, passive losses can only offset passive income. Active losses offset active income.** The buckets don't freely pour into each other.

So, when you invest as a limited partner in a real estate deal and it throws off a big depreciation loss (Chapter 4), that loss is *passive*. By default, it can't wipe out the *active* income from your surgery practice or your salary. It can shelter the income from *that* deal and other passive investments — and any unused loss isn't gone; it waits in line, carrying forward to future years and freeing up in full when you sell.

#### **RUN THE NUMBERS**

Say you're a limited partner in two deals.

**Deal A** distributes you **\$50,000** of passive income this year.

**Deal B** passes you a **\$120,000** passive loss (mostly from depreciation).

Result: the \$120,000 loss erases all \$50,000 of Deal A's income — you owe **zero** tax on it — and you still have **\$70,000** of passive loss left over, carrying forward to shelter future passive income or your gain when a deal sells.

*You earned \$50,000 in cash and paid no tax on it. That's the buckets working in your favor.*

For most investors, that alone is powerful: building a portfolio of passive investments where the losses from new deals continuously shelter the income from maturing ones. A perpetual, legal tax shield.

#### **CPA BLIND SPOT**

Here's where it gets interesting — and where the real opportunity lives. Most people, and even many advisors, treat

the active/passive label as a *fixed fact*: "I'm a passive investor, so I'm stuck in the passive bucket." But for certain kinds of assets and certain structures, **which bucket your income lands in can be a matter of design, not destiny**. There are well-established, IRS-recognized situations where an investor's losses are *not* trapped as passive — and can reach ordinary income. Hospitality is one of the strongest candidates for this, for a reason written right into the regulations. That's the play most people never even know to ask about. We'll open it up in Part III.

### **SMILE & SUCCEED**

*Don't let a single word on a form decide your future. So much of wealth-building is realizing that the "rules" you accepted without question were actually choices in disguise. The wealthy don't break the rules — they read them more carefully.*

For now, lock in the core idea: **your income lives in buckets, losses generally stay in their own bucket, and the magic of real estate is creating large losses inside the right bucket — sometimes a bucket of your own choosing.**

Which brings us to the engine that creates those losses in the first place. The deduction you take without ever writing a check.

**ASK YOUR ADVISOR** *Passive-activity rules (and their exceptions) are fact-specific. Your CPA determines how your income and losses are classified.*

# **PART II – THE TOOLS, IN PLAIN ENGLISH**

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# Chapter 4 — Depreciation: The Phantom Expense That Pays You Real Money

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*"How can a building make money and still show a loss?"*

It's the question that makes brand-new investors squint and makes seasoned one's smile. And it's the engine underneath almost every tax advantage in real estate.

Here's the strange and wonderful truth: the IRS lets you deduct the *wearing out* of a building a little bit every year — even when the building is going *up* in value, and even though you didn't write a check for it.

**IN PLAIN ENGLISH** *Depreciation*: a paper expense for the gradual "using up" of a property. No cash leaves your pocket, but it lowers your taxable income.

That's why I call it a **phantom expense**. It haunts your tax return in the best possible way: a deduction you take *without spending money to take it*.

## The two clocks

The IRS won't let you depreciate land — land doesn't wear out. It only lets you depreciate the *building* and what's inside it, and it puts that on a clock:

- **Residential rental property:** depreciated over **27.5 years**
- **Commercial property — including hotels:** depreciated over **39 years**

So, if a building's depreciable value is, say, \$39 million, the "standard" clock hands you roughly \$1 million in deductions every year — a million dollars of expense you never wrote a check for.

### **RUN THE NUMBERS**

**Straight-line depreciation** = Depreciable Basis ÷ Recovery Period

*Example: \$39,000,000 building ÷ 39 years = \$1,000,000 of annual deduction.*

That \$1,000,000 can shelter \$1,000,000 of income from this property before you owe a dime of tax on it.

## **Why the wealthy don't wait 39 years**

Here's where most people leave money on the table — and where the next chapters earn their keep. You don't have to take that deduction in slow, even slices. Two tools let you pull large chunks of it *forward*, into the early years when the shelter is most valuable:

- **Cost segregation** breaks the building into faster-depreciating parts (Chapter 6).
- **Bonus depreciation** lets you accelerate big portions into the early years (Chapter 5).

Together, a deduction that *looks* like \$1 million a year can become several times that up front — turning a profitable, cash-flowing hotel into a *paper loss* on your return.

A paper loss. On an asset that's paying you in cash. That is not a trick. That is the code working exactly as designed.

### CPA BLIND SPOT

Plenty of competent CPAs simply run the standard 39-year, straight-line schedule on a commercial building, because that's the default the software produces. They're not *wrong* — they've just left the accelerator pedal untouched. The forgotten move is commissioning a **cost segregation study** *before* the first return is filed, so the acceleration is captured from day one rather than reconstructed painfully later. On a large property, that single decision can mean six or seven figures of additional deductions in year one alone.

### SMILE & SUCCEED

*Wealth isn't only what you earn — it's what you keep and put back to work. Every dollar depreciation legally saves you is a dollar that goes right back into the soil to grow again. That's not avoidance. That's stewardship.*

## What depreciation does NOT do

Depreciation isn't free money, and honesty matters more than hype. When you eventually sell, some of that benefit can come back as **depreciation recapture** — a settling-up with the IRS. The very good news is that there are well-established, perfectly legal ways to defer, reduce, or even erase that day of reckoning entirely. That's the promise of Chapters 11 and 12, and it's where legacy gets built.

For now, hold onto this one sentence: **depreciation is the quiet machine that lets a hotel pay you in cash today while showing a loss on paper.** Master it, and the rest of this book clicks into place.

**ASK YOUR ADVISOR** *Depreciation outcomes depend on your facts, your income type, and current law. Use these examples to start a conversation with your CPA, not as a filing instruction.*

# Chapter 5 — Bonus Depreciation & the Big Reset

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*"I keep hearing the rules just changed. What actually happened — and does it help me?"*

It did change, and it changed in your favor. To understand why investors are paying close attention right now, you need a one-minute history.

For years, the tax code offered something called **bonus depreciation** — a rule that lets you deduct the *full* cost of certain assets in year one, instead of spreading it across their normal life. It was generous, but it was scheduled to die. The deduction was phasing down step by step: 60% in 2024, dropping toward 40%, then 20%, then gone entirely by 2027. Investors were racing the clock.

Then, on July 4, 2025, the **One Big Beautiful Bill Act** was signed into law — and it hit the reset button. It restored **100% bonus depreciation and made it permanent.**

**IN PLAIN ENGLISH** *Bonus depreciation:* a rule that lets you deduct 100% of the cost of qualifying assets in the very first year, rather than a slice at a time over decades.

Two words in that last sentence matter enormously: *100%* and *permanent*.

- **100%** means a qualifying asset is fully written off the year it goes into service.

- **Permanent** means no more racing a phase-out. You can build a real multi-year plan instead of cramming everything into a closing deadline.

## What qualifies — and why it loves real estate

Bonus depreciation applies to property with a useful life of **20 years or less**. A 39-year building doesn't qualify on its own. But the *components inside* that building — the carpet, the lighting, the cabinetry, the specialized systems — often carry 5-, 7-, or 15-year lives. Those qualify beautifully.

How do you separate those short-life components out of the building? With a cost segregation study — which is the entire subject of the next chapter. **Cost segregation finds the short-life dollars; bonus depreciation lets you deduct them all at once.** They are two halves of one machine.

### RUN THE NUMBERS

A hotel is purchased and roughly **\$10,000,000** sits in the depreciable building. A cost segregation study reclassifies about **35%** of it — **\$3,500,000** — into 5-, 7-, and 15-year property. With 100% bonus depreciation, that entire **\$3,500,000 is deductible in year one.**

*Spread the old way, that \$3.5M would have trickled out over decades. Now it lands the very first year — often turning a profitable, cash-flowing property into a sizable paper loss for its investors.*

### CPA BLIND SPOT

Here's the trap inside the good news: the 100% rate applies to property **acquired after January 19, 2025**. Property under a binding contract on or before that date is still stuck on the *old*

phase-down schedule — sometimes 40%, sometimes less. So, two nearly identical hotels can produce wildly different first-year deductions based solely on which side of that date the deal was locked. Before you celebrate a 100% write-off, confirm the acquisition date actually clears the line. (And if you own an *older* property, you think missed the window entirely — don't be so sure. The next chapter shows the back door.)

### **SMILE & SUCCEED**

*There's a quiet gift in the word "permanent." For years, smart investors made rushed decisions just to beat a deadline. Now you can breathe, plan, and let strategy lead instead of the calendar. Peace of mind is its own kind of return.*

So, the headline is simple: the most powerful first-year deduction in real estate is back, it's at 100%, and it's here to stay. The only question left is how to find every dollar that qualifies — which is exactly what cost segregation does.

**ASK YOUR ADVISOR** *Acquisition dates, binding-contract rules, and elections are detail-sensitive. Your CPA confirms what rate your specific deal qualifies for.*



## Chapter 6 — Cost Segregation, Demystified

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*"Everyone keeps mentioning a cost segregation study. Where exactly is this 'hidden money'?"*

Picture how the IRS sees your building by default: as one giant, single object that wears out evenly over 39 years. Slow and uniform.

Now picture how the building *actually* is. It's not one thing. It's a sturdy concrete-and-steel shell — and wrapped inside and around it are thousands of components that wear out far faster: the carpet and flooring, the decorative lighting, the cabinetry and millwork, the signage, the dedicated guest-room air conditioning, the pool deck, the parking lot, the landscaping. None of those things last 39 years. So why should the IRS make you pretend they do?

It doesn't — *if you ask correctly*. A **cost segregation study** is the asking.

**IN PLAIN ENGLISH** *Cost segregation study:* an engineering-based analysis that walks through your property, identifies the components that legally deserve a shorter depreciation life, and moves them off the 39-year clock onto 5-, 7-, and 15-year clocks.

## Why hotels are the sweet spot

Not every building benefits equally. A bare warehouse is mostly shell — little to reclassify. A hotel is the opposite. A hotel is essentially furniture, finishes, and specialized systems wrapped in a structure. That's why hospitality is one of the most rewarding property types for this strategy: a typical hotel study reclassifies **25% to 40%** of the depreciable basis into short-life categories — often toward the high end, because hotels are so dense with the very assets that qualify.

And remember Chapter 5: every dollar reclassified into those short-life buckets is now a dollar eligible for **100% bonus depreciation** — deductible immediately. That's the one-two punch that makes the numbers so dramatic.

### **RUN THE NUMBERS**

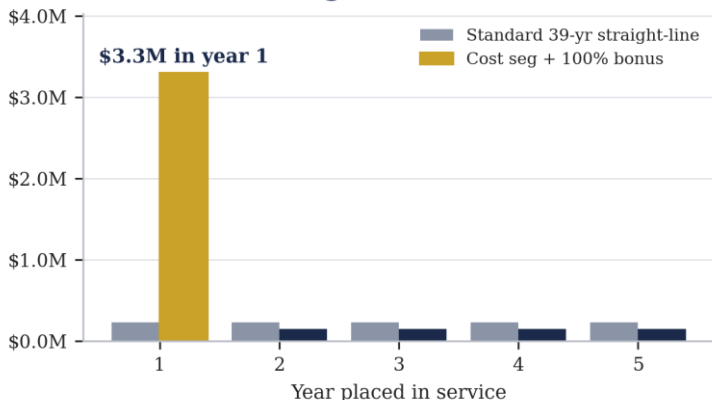
A hotel is acquired for **\$12,000,000**. Roughly **\$3,000,000** is allocated to land (which never depreciates), leaving about **\$9,000,000** in depreciable building.

A cost segregation study reclassifies **~35%** — about **\$3,150,000** — into 5-, 7-, and 15-year property.

With 100% bonus depreciation: **~\$3,150,000 deducted in year one.**

*That deduction flows out to the investors on their K-1s (Chapter 9), often sheltering far more income than they invested in cash.*

## Where the Deduction Lands \$9M hotel building, 35% reclassified



*The same building, the same total deductions — but cost segregation plus 100% bonus pulls the bulk of it into year one, where the shelter is worth the most.*

### CASE STUDY (ILLUSTRATIVE)

A group of accredited investors pools capital into a full-service hotel. On paper, the property is healthy — strong occupancy, real cash distributions from day one. Yet at tax time, the cost segregation study plus bonus depreciation generates a **multi-million-dollar first-year deduction**, passed through to the limited partners. The result: investors receive **real cash distributions** and a **paper loss** on the same investment in the same year. The cash spends; the loss shelters. *(We'll plug in the real Columbus and McAllen numbers once we drop them in — this is the shape of the story.)*

### CPA BLIND SPOT

The most expensive myth in this entire book: *"I've owned the property for years — I missed my chance."* You almost certainly didn't. A **look-back study** lets you commission a cost segregation analysis on a property acquired or built any time

since 1986, calculate all the depreciation you *should* have taken, and claim the entire catch-up in the **current year** — through an accounting-method change, **without amending a single prior return**. Owners leave fortunes on the table because no one told them the window never actually closed.

### **SMILE & SUCCEED**

*I love cost segregation because it rewards diligence over luck. The money was always there, sitting inside the building. The study simply gives you permission to see it — and the courage to claim what's rightfully yours.*

A cost segregation study takes only a few weeks and pays for itself many times over on a property of any real size. It is, quite simply, the closest thing to found money in legitimate tax strategy.

**ASK YOUR ADVISOR** *Studies should be engineering-based and defensible. Your CPA and a qualified cost-seg firm determine what reclassifies and how the catch-up is reported.*

# Chapter 7 — The Blind Spots

## Chapter

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*"Be honest with me — what is my CPA most likely missing?"*

This is the chapter to dog-ear. Most of what costs investors' money isn't fraud or aggressive risk — it's *omission*. The deduction never taken. The election never made. The window everyone assumed was closed. Here are the eight blind spots I see most often. Read them with your own situation in mind, then take the list to your advisor.

**1. The acquisition-date line.** As Chapter 5 explained, 100% bonus depreciation applies to property acquired after January 19, 2025. Deals locked on or before that date may be stuck on the old, lower phase-down. *Always confirm which side of the line your deal falls on before assuming a full write-off.*

**2. Never ordering a cost segregation study.** Running the standard 39-year schedule is the default the software produces — and the single biggest deduction most owners never claim. The accelerator pedal is right there. Press it.

**3. Believing it's "too late."** The look-back study (Chapter 6) lets you catch up years of missed depreciation in the current year, no amended returns required. The window you thought closed is almost always still open.

**4. A lazy land allocation.** Land can't be depreciated — so how the purchase price is split between land and building

*directly* controls how much you can write off. An offhand, over-generous land allocation quietly shrinks every deduction that follows. A defensible, well-supported allocation protects them.

#### **RUN THE NUMBERS**

On a **\$12,000,000** property, allocating **30%** to land leaves **\$8.4M** depreciable. Allocating a defensible **20%** leaves **\$9.6M** depreciable — **\$1.2M more** to accelerate. Same building. Different paperwork. Real money.

#### **5. Forgetting Qualified Improvement Property (QIP).**

Interior improvements made *after* a building is placed in service generally carry a 15-year life and are bonus-eligible — meaning renovations and refreshes can often be largely written off in year one. Hospitality renovates constantly, so this one recurs every few years.

**6. Skipping the partial asset disposition.** When you tear out an old roof, HVAC, or interior and replace it, you can write off the *remaining value of what you removed* instead of depreciating a component that no longer exists. Most owners simply forget the old asset and quietly carry a phantom on their books.

**7. Losing track of suspended passive losses.** As Chapter 3 showed, passive losses you can't use this year don't vanish — they carry forward and are freed in full when the property sells. Investors who don't track them sometimes pay tax on a sale they didn't actually owe.

**8. No exit or recapture plan.** Depreciation feels free until you sell, when some of it can return as recapture. The investors who keep the most never get surprised, because they planned

the exit on day one — a 1031 exchange, a step-up, or another deferral (Chapters 11 and 12).

### **CPA BLIND SPOT (THE BIG ONE)**

Beneath all eight sits a single assumption that costs sophisticated investors the most: *"I'm a passive investor, so these losses can't touch my active income."* For most real estate, that's true. But hospitality occupies a special place in the regulations — and under the right structure, those losses are not always trapped in the passive bucket. That one distinction can be the difference between a deduction that merely shelters a deal and a deduction that reaches your *practice* or your *paycheck*. It's the most valuable idea in this book, and it's why the next part is devoted entirely to hotels.

### **SMILE & SUCCEED**

*None of this requires being clever or aggressive. It requires being thorough — and asking better questions. The wealthy aren't smarter than you. They're simply surrounded by people who never forget to ask. Let this list make you that person.*

You now have the tools: the buckets, the phantom expense, the permanent 100% reset, the study that finds the hidden money, and the blind spots that quietly drain returns. It's time to put them all on a single asset class that was practically built for them.

**ASK YOUR ADVISOR** *Every item here is fact-specific. Treat this as a checklist of questions for your CPA and tax counsel — not as a set of instructions to self-apply.*



# Chapter 8 — Why Hotels? Cash Flow Meets the Code's Sweet Spot

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*"Of all the real estate in the world, why have you spent so much of your life on hotels?"*

Because hotels do something almost no other asset class does: they combine strong, responsive cash flow with a place in the tax code that other real estate simply doesn't share. Most investors know hotels can make money. Very few understand *why* they're a tax instrument, too. Let me give you all three reasons.

## Reason 1 — Hotels reprice every single night

An apartment locks its rent for a year. An office building locks its lease for five or ten. A hotel? A hotel sets its price *every morning*. When demand rises, when a city books up, when inflation pushes costs higher — a well-run hotel raises its rates that same day. That makes hospitality one of the most natural inflation hedges in all of real estate, and it's why a great hotel can throw off cash flow and total returns that a static lease simply can't match.

**IN PLAIN ENGLISH** *ADR, RevPAR, NOI*: **ADR** is the average nightly room rate; **RevPAR** is revenue per available room (rate × how full you are); **NOI** is net operating income — what's left after expenses, and the number that ultimately drives a hotel's value.

## Reason 2 — Hotels are dense with the assets the tax code rewards

Think back to Chapter 6. A cost segregation study reclassifies 25–40% of a building into short-life property — and hotels sit at the high end of that range, because a hotel is essentially furniture, finishes, lighting, and specialized systems wrapped in a shell. There's simply *more to accelerate*. Pair that density with permanent 100% bonus depreciation, and hotels generate some of the largest first-year deductions available in real estate.

## Reason 3 — And here's the one almost everyone misses

In the eyes of the tax code, a hotel is **not a rental**. It's a *trade or business* — because guests stay for nights, not years. That single distinction, which we'll unpack fully in Chapter 10, is what opens a door that apartment investors can only dream about: the possibility of losses that aren't trapped in the passive bucket.

### RUN THE NUMBERS

*(illustrative)*

*A hotel produces **\$2,000,000** of NOI. Improve operations and lift NOI by just **10%** — to **\$2,200,000** — and at a typical valuation multiple, you may have created **\$2–3 million in value** without buying another building. Hotels*

*reward great operators. You don't just buy value — you can manufacture it.*

### **CASE STUDY (YOUR TRACK RECORD — FIGURES TO CONFIRM)**

Over the years I've acquired hotels below replacement cost — including assets bought at auction for a fraction of what it would cost to build them — repositioned them with strong operating partners and exited for multiples of what we paid. *(We'll drop in the exact McAllen, Plano, and Casa de Palmas numbers here, so the reader sees real outcomes, not just theory.)*

### **CPA BLIND SPOT**

Many investors lump "real estate" into one mental category and assume the tax treatment is identical across apartments, offices, and hotels. It is not. The average-stay distinction makes a hotel a fundamentally different animal under Section 469 than an apartment building. An advisor who treats your hotel investment like a standard rental may quietly cost you the single biggest advantage the asset offers.

### **SMILE & SUCCEED**

*I fell in love with hospitality because it's a business of service — you're literally in the business of taking care of people. The tax advantages are real and powerful, but never forget: behind every strong return is a property that treats its guests well. Do right by people, and the numbers tend to follow.*

So that's the case: daily-repricing cash flow, the densest depreciation in real estate, and a trade-or-business status that unlocks everything in Chapter 10. But first — how does any of this actually reach *your* tax return? Through one humble, misunderstood little form.

**ASK YOUR ADVISOR** *Projected returns and tax treatment vary by deal and by investor. These illustrations are not forecasts; your advisors evaluate any specific opportunity.*

## Chapter 9 — The Magic of the K-1

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*"If I'm just an investor in a deal I don't run, how does a loss inside that deal end up on MY return?"*

Through a single bridge: a form called the **Schedule K-1**. Once you understand it, the whole machine becomes visible.

When you invest in a syndication, you're typically becoming a partner in a partnership (usually an LLC taxed as one). Here's the beautiful part: **the partnership itself pays no federal income tax**. It's a *pass-through*. Every dollar of income, and every dollar of loss and deduction, flows *through* the entity and out to its partners, each according to their share.

The K-1 is how it flows. Once a year, the partnership sends each investor a Schedule K-1 — a statement of *your* slice of that year's income, losses, deductions, and credits — which you then carry onto your personal return.

**IN PLAIN ENGLISH** *Schedule K-1*: the tax form a partnership sends each partner each year, reporting that partner's personal share of the deal's income and losses to report on their own 1040.

So, follow the chain we've built: cost segregation plus 100% bonus depreciation generates, say, a **\$3,000,000 loss** inside the hotel partnership. Your K-1 reports *your proportional share* of that loss. The building's phantom expense — the deduction no one wrote a check for — has now landed squarely on your personal tax return. That's the magic.

## Cash in one hand, a loss in the other

Here's the part that delights investors the first time they see it. In the very same year, your K-1 can show a **loss**, while you've actually *received cash distributions* from the property. How? Because the loss is mostly non-cash depreciation, and the cash you received is often treated as a return of capital rather than taxable income — frequently sheltered by that very loss.

### RUN THE NUMBERS

*You invest **\$100,000** in a hotel deal.*

*During year one you receive **\$7,000** in cash distributions.*

*Your K-1 reports your share of the first-year loss: about **\$35,000** (mostly bonus depreciation).*

*Result: you pocketed **\$7,000 in cash** and received a **\$35,000 deduction** — on the same investment, in the same year. Which income that \$35,000 can offset is the entire question of the next chapter.*

### CPA BLIND SPOT

Three K-1 errors I see constantly: (1) treating cash **distributions** as if they were taxable income — they usually aren't; (2) failing to track **suspended passive losses** that carry forward and free up on sale; and (3) dropping the loss into the **wrong bucket** on the return, so it shelters nothing. Also practical: partnership K-1s often arrive late, on extension — so build your personal filing timeline around that, every year.

### **SMILE & SUCCEED**

*The K-1 confuses people because it doesn't look like a paycheck. But that's exactly the point. A paycheck is taxed before it reaches you. A K-1 hands you income and a shield in the same envelope. Learning to read it is learning to think like an owner instead of an earner.*

The K-1 is the bridge. What's left is to make sure your share of the loss lands in the bucket where it can do the most good — ideally, against your *active* income. For most real estate, that's impossible. For hotels, structured correctly, it isn't.

**ASK YOUR ADVISOR** *How a distribution and a K-1 loss are treated depends on your basis, at-risk amount, and participation. Your CPA reconciles the K-1 to your return.*



# Chapter 10 — Turning Passive Into Active: The GP Active Participation Strategy

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*"Be direct with me: can the losses from a hotel I invest in actually offset my W-2 or my practice income?"*

This is the question this entire book has been building toward. And the honest answer is: *for most real estate, no — but for hotels, structured correctly and with genuine involvement, it can be possible.* Let me show you exactly why, and exactly what it requires. I won't sugarcoat the conditions, because the conditions are the whole point.

## The wall most investors hit

Recall the buckets from Chapter 3. As an ordinary **limited partner**, the tax code generally *presumes you do not materially participate* in the business. That presumption is powerful: it means your losses are **passive** — and passive losses can't touch your salary or practice income. So even though a hotel is a trade or business, a plain limited partner usually finds the big depreciation loss stranded, sheltering only other passive income.

That wall is where most syndications leave their investors. But there's a door in it.

## The two doors that must both open

For a hotel loss to become **non-passive** — able to offset active income — two conditions must both be satisfied:

- 1. The activity must not be a "rental activity."** Hotels clear this automatically, because the average guest stay is well under seven days. The regulation that defines this exception was, quite literally, written with hotels and hospitality in mind. This door is open by the nature of the asset.
- 2. You must materially participate.** This is the door you have to open yourself — and a *limited* partner generally can't. A **general partner or managing member**, however, can, *if* they genuinely meet one of the IRS's material participation tests (for example, more than 500 hours, or more than 100 hours and more than anyone else involved).

## The structure: enter active, become passive at your discretion.

This is the strategy in one sentence: investors enter the deal as general partners or managing members in the year the large loss is generated, genuinely participate enough to clear a material-participation test, and thereby treat that first-year loss as non-passive. In subsequent years, they remain GPs but if they do not meet the material participation hours requirement, they are unable to deduct losses in year 2 through exit because they don't qualify as active. They essentially get ongoing passive treatment.

In spirit, this mirrors how oil-and-gas investors have long taken first-year, non-passive losses through "working interests." The *mechanism* differs — oil and gas has its own statutory exception, while hotels rely on the seven-day rule plus material participation plus non-limited status — but the *result* is the same shape: a large, active-offsetting deduction up front, structured ownership afterward.

## **RUN THE NUMBERS**

*(illustrative)*

*You invest **\$200,000**, entering as a managing member in year one.*

*Cost segregation and 100% bonus depreciation drive your share of the first-year loss to roughly **\$280,000** — more than your entire equity, reflecting the kind of depreciation-to-equity ratios hotels can produce.*

*If the activity is non-passive for you (door 1) and you materially participate (door 2), that ~\$280,000 can offset **active** income — your practice, your business, your salary — not just passive income.*

*In year two, you don't have to put in the hours to qualify as a material participant. The result is you cannot deduct any losses passed through, but you get to enjoy the passive cash flow. The heavy lifting happened in year one, by design.*

## The honest fine print (read this twice)

I would be doing you a disservice to present only the upside. This strategy is powerful *because* it is demanding:

- **Material participation must be real.** It is measured in genuine hours and genuine involvement, documented contemporaneously. A title on paper is not enough — the IRS scrutinizes these claims closely, especially when a professional operator is also working the deal.
- **General-partner status carries real exposure** — both liability and, in profitable years, potential self-employment tax. The conversion to passive by not being able to qualify as a material participant in year two is partly to manage exactly these.
- **Loss limitations still apply.** Your basis, your at-risk amount, and the excess-business-loss limitation can all cap how much you use in a given year, with the remainder carrying forward.
- **This must be built and blessed by qualified counsel and a CPA.** The structure has to be designed into the offering from the start — it cannot be bolted on at tax time.

## A Reality Check: The Annual Loss Cap

Before you picture a single hotel erasing your entire salary, you need to meet the one rule that most often trims this strategy down to size — the excess business loss limitation, tucked into Section 461(l). It does not take the deduction away. It caps how much of your net business loss you may use against non-business income — your salary, your interest, your dividends, your capital gains — in any single year.

The 2025 One Big Beautiful Bill Act made this cap permanent and, beginning in 2026, actually tightened it. Crucially, anything above the cap is not lost: it converts into a net operating loss and carries forward. So a very large first-year loss may simply shelter your income across two or three returns instead of one — perfectly fine, but it changes the timing you plan around. And note the order of operations: the passive-activity and at-risk rules are tested first; this cap is the last gate the loss passes through before it reaches your other income.

**IN PLAIN ENGLISH** *Excess business loss limitation (§461(l)):* a yearly ceiling on how much net business loss an individual can deduct against income that isn't from a business. Whatever sits above the ceiling rolls forward as a net operating loss to a future year.

Filing status	2025 cap	2026 cap
Single	\$313,000	\$256,000
Married filing jointly	\$626,000	\$512,000

*Indexed annually. The 2026 figures fall because OBBBA reset the inflation method — confirm the current-year number with your CPA.*

**RUN THE NUMBERS** *Say your share of the first-year hotel loss is \$600,000, and you file jointly. In 2026 you could use up to \$512,000 of it against your active income this year; the remaining \$88,000 carries forward as an NOL to next year. One deal, one big deduction — simply metered across two returns instead of one.*

### **CPA BLIND SPOT (THE ONE THIS WHOLE BOOK POINTS TO)**

The blind spot cuts both ways. On one side: the vast majority of syndications never offer this at all — they drop every investor

straight into limited-partner status, and the most valuable deduction in the deal is stranded as passive before the investor ever had a choice. The entry structure itself is the forgotten lever. On the other side: investors who claim the benefit *without* genuine participation and documentation are the ones who get hurt. The sophisticated move is to invest where the structure is built correctly **and** to do the real work that earns the treatment. Get both right, and a single hotel investment can reduce the tax on the income you worked hardest to earn.

### **SMILE & SUCCEED**

*This is the chapter I most wanted to write, because it's where so many hardworking, high-earning people have been quietly left behind — told they “Make too much” to benefit from real estate. You were never too successful for these strategies. You were simply never shown the door. Now you've seen it. Walk through it the right way, with the right people, and build something that outlives you.*

You now hold the complete machine: the buckets, the phantom expense, the permanent reset, the hidden money in the building, the blind spots, and — for hotels done right — the path from passive to active. What remains is how to keep it, compound it, and hand it down. That's where legacy begins.

**ASK YOUR ADVISOR** *This is sophisticated structuring with real requirements and real risks. Nothing here is a promise of any tax result. Pursue it only with tax counsel and a CPA who design and document the structure for your specific facts. (We'll align this chapter precisely to your offering addendum and counsel's analysis before print.)*

# Chapter 11 — 1031s, Opportunity Zones & the Art of the Deferral

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*"One day I'll sell, and the gain will be enormous. How do I keep from handing a fortune to the IRS?"*

Here is a truth the wealthy understand in their bones: **a dollar of tax deferred is a dollar that keeps working for you.** Tax you don't pay today stays invested, compounding, for years or decades. Deferral isn't a delay tactic — it's one of the most powerful wealth-building forces there is. And the code hands you two beautiful ways to use it.

## Tool one: the 1031 exchange

A **1031 exchange** lets you sell an investment property and roll the *entire* proceeds — gain and all — into another investment property, deferring both the capital gains tax *and* the depreciation recapture. You don't skip the tax; you *postpone* it, keeping your full capital at work.

**IN PLAIN ENGLISH** *1031 exchange*: trading one investment property for another "like-kind" investment property and postponing the tax, as long as you follow the IRS's timing rules.

The rules are strict but simple: you have **45 days** from your sale to formally identify the replacement property, **180 days** to close on it, and you must use a **qualified intermediary** to hold the funds — if the cash touches your hands, the exchange

is blown. Follow them, and you can do this again and again. Investors call it "**swap till you drop**" — rolling gains forward your entire life and never paying the deferred tax. (Why "till you drop" matters so much is the subject of the next chapter.)

## RUN THE NUMBERS

*You sell a property with a **\$1,000,000** gain.  
Pay the tax, and perhaps **\$300,000**—  
**\$400,000** evaporates. Instead, you 1031 into a  
larger hotel and keep **all \$1,000,000** working.  
That deferred tax just became your down  
payment on a bigger asset.*

## Tool two: Opportunity Zones

The second tool lets you take a capital gain from **anything** — a stock sale, a business exit, real estate — and reinvest it into a **Qualified Opportunity Fund**, deferring the original gain and, if you hold long enough, paying **zero tax on the growth**.

**IN PLAIN ENGLISH** *Opportunity Zone*: invest a capital gain into a designated fund, defer the tax on that gain, and owe nothing on the *new* appreciation if you hold for at least ten years.

This program was recently made a permanent part of the tax code, with an enhanced framework taking effect January 1, 2027: a rolling five-year deferral of the original gain, a basis step-up, and — the real prize — **tax-free appreciation on investments held ten years or longer**. Because the rules are in transition between the old and new maps, *timing your*

*gain matters more than ever*, which is exactly the kind of thing to plan with your advisor before you sell.

### **CPA BLIND SPOT**

The 1031's 45-day identification window is brutal and unforgiving — and the single most common way investors blow an exchange is by *selling first and looking for a replacement after*. By then the clock is already running. The sophisticated move is to **line up your replacement property before you ever close the sale**, and to engage the qualified intermediary in advance. Deferral rewards the prepared, not the hopeful.

### **SMILE & SUCCEED**

*I've watched investors turn one well-bought hotel into a far larger portfolio without ever pausing to pay tax along the way — simply by deferring, rolling, and staying patient. Wealth loves momentum. Every time you defer instead of liquidating, you keep the snowball rolling downhill.*

Deferral keeps your capital compounding through your lifetime. But what happens at the *end* of the road, when a lifetime of deferred gains finally comes due? That's where the most elegant provision in the entire code is waiting.

**ASK YOUR ADVISOR** *Exchange timing, intermediaries, and Opportunity Zone rules are detail-intensive and changing. Coordinate every step with your CPA and a qualified intermediary or fund.*



# Chapter 12 — The Legacy Play: Step-Up in Basis

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*"If I keep deferring my whole life, don't I just leave my children a giant tax bomb?"*

This is the question that turns tax strategy into *legacy*. And the answer is the most beautiful single provision in the code for families. No — you don't leave them a bomb. Handled correctly, you leave them a clean slate.

It's called the **step-up in basis**. When you pass away, your heirs inherit your assets not at the price *you* paid, but at their **fair market value on the date of your death**. The entire built-in gain you spent a lifetime deferring — and all the depreciation you ever claimed — simply *resets*. For income-tax purposes, it vanishes.

**IN PLAIN ENGLISH** *Step-up in basis*: at your death, your heirs' "cost" in your assets is reset to today's market value, erasing the taxable gain that built up during your lifetime.

Now connect it to Chapter 11. You depreciate aggressively while you live (Chapters 4–7), sheltering your income year after year. When you sell, you 1031 the gain forward instead of paying it (Chapter 11). You do this again and again — *swap till you drop*. And then, at the finish line, the step-up wipes the entire deferred slate clean. Your heirs can sell at the stepped-up value owing little or no capital gains tax at all. **That is how real estate fortunes pass across generations largely untaxed — legally, and entirely by design.**

To accomplish this, the investor would use a Tenant-in-Common (TIC) structure to own a direct, undivided interest in the property. Instead of owning a hotel by yourself, you would own a fractional interest in a larger institutional-quality property alongside other investors. Importantly, you still own real estate directly rather than owning an interest in a partnership. Because of that distinction, a properly structured TIC interest may qualify as replacement property in a Section 1031 exchange.

## RUN THE NUMBERS

*You sell a property with a \$1,000,000 gain. If you pay the tax, \$300,000 to \$400,000 evaporates. Instead, you complete a Section 1031 exchange into a TIC interest in a professionally managed hotel.*

*You now own a direct interest in a larger asset. You kept your \$1,000,000 working for you, a professional management team is handling the operations and you deferred all taxes used a 1031 exchange.*

A note on estate tax, since people worry about it: the federal estate and gift tax exemption was recently set, permanently, at **\$15 million per person — \$30 million for a married couple** — and indexed to rise with inflation. That means the vast majority of families now fall comfortably below the federal estate tax altogether, which shifts the goal from

avoiding estate tax to **maximizing that income-tax step-up**. And critically, the step-up itself remains fully intact under current law.

#### **CPA BLIND SPOT**

Two expensive misunderstandings live here. First: **gifting appreciated property during your life can forfeit the step-up** — your heirs take your *old* low basis instead of a fresh high one. Counterintuitively, it is often better to *hold* a highly appreciated asset until death than to give it away early. Second: now that the exemption is so high, some **older trust structures** (the classic credit-shelter or bypass trusts written in a different era) can quietly *backfire* by denying assets a step-up at the second spouse's death. If your estate plan was drafted years ago, it deserves a fresh look through this lens.

#### **SMILE & SUCCEED**

*The Bhagavad Gita teaches us to act with devotion but without clinging to the fruits of our actions. There's wisdom in that for legacy. We build, we steward, we plant trees whose shade we may never sit under — and we pass the harvest forward. Money is never the point. But a fortune handed to the next generation, intact and untaxed, is a powerful way to love the people who come after us.*

And there it is — the complete machine, from the first dollar sheltered to the last dollar passed on. You came to this book asking how to keep more of what you earn. You now know not only how to keep it, but how to compound it, protect it, and hand it down. The only thing left is the most important step of all.

**ASK YOUR ADVISOR** *Estate and basis planning is deeply personal and state-specific. Work with an estate attorney and CPA to build a plan around your family and your assets.*

# **PART III – THE ADVANCED TOOLKIT**

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## Chapter 13 — The Spouse Strategy & Real Estate Professional Status

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*You showed me how a hotel loss can turn active. But what about the rest of my real estate — the apartments, the long-term rentals? Is there a way to free those losses too?*

There is, and it rests on a single status that is the master key to the rest of a real estate portfolio. Recall why hotels were special in Chapter 10: because the average guest stays only a few nights, a hotel isn't a "rental" in the eyes of the code, so its losses can escape the passive bucket. Ordinary rental real estate — apartments, long-term leases — gets no such free pass. By default its losses are passive no matter how many hours you pour in. Unless you, or your spouse, qualify as a Real Estate Professional.

### What the status actually requires

It is not a license or a title; it is a two-part test you meet each year. Both halves must be satisfied:

- 3. More than 750 hours** of work in real property trades or businesses — acquiring, managing, developing, operating.
- 4. More than half of all the personal-service work you do that year** must be in those real property businesses.

That second test is the wall. A full-time surgeon or founder, working two thousand hours in their own field, essentially cannot spend more time on real estate than on their career. Which is exactly why the next section matters so much.

**IN PLAIN ENGLISH** *Real Estate Professional Status (REPS):* a status under Section 469(c)(7) that lets your rental losses be treated as non-passive — able to offset your other income — if you spend more than 750 hours, and more than half your total working time, materially involved in real estate.

## The spouse strategy — the part most couples miss

Here is the quiet gift in the rules: the two tests are applied to each spouse individually, but on a joint return the resulting losses belong to the household. That means only one spouse has to qualify. The high earner keeps the demanding W-2 career; the other spouse runs the real estate, clears the 750 hours and the more-than-half test — far easier for someone not working another full-time job — and the family's rental losses become non-passive against the high earner's income.

One more step completes it. Even as a real estate professional, you must still materially participate in each property. Most investors file a grouping election, which lets you treat your entire portfolio as a single activity — so your hours are counted across all of it at once rather than property by property.

**RUN THE NUMBERS** *A married couple. Spouse A earns \$700,000 as a physician. Spouse B left the workforce to run their apartment portfolio, logging roughly 900 documented hours. The portfolio throws off a \$250,000 depreciation loss. Because Spouse B qualifies as a real estate professional and*

*materially participates, that **\$250,000 is non-passive** — it offsets Spouse A’s W-2 income (subject to the §461(l) cap from Chapter 10). With no real estate professional in the household, the very same loss would have sat stranded as passive.*

## A quick map of the three doors

By now you’ve seen three distinct ways into the active bucket, and it helps to hold them side by side:

- 5. Hotels (Chapter 10):** the short average stay makes them a trade or business; material participation does the rest. No 750-hour test.
- 6. Short-term rentals:** the same engine, smaller. A rental with an average guest stay of seven days or less isn’t a “rental activity” either — so material participation alone (no REPS test) can make its losses non-passive. This is the much-discussed “short-term rental loophole.”
- 7. Everything else (this chapter):** ordinary rentals require full Real Estate Professional Status — most realistically through a non-working or part-working spouse.

**CPA BLIND SPOT** This is the single most-audited corner of real estate tax — so the discipline has to match the ambition. The hours must be **real and contemporaneously logged** (a calendar or time journal, not a year-end reconstruction). A spouse claiming the status while holding a full-time job elsewhere almost never survives examination. And do not skip the grouping election: without it, the IRS can force you to prove material participation one property at a time — a test many portfolios quietly fail.

**SMILE & SUCCEED** *Some of the most beautiful wealth I've watched families build came exactly this way — one spouse anchoring the career, the other building the real estate, both rowing in the same direction. The tax code, for once, rewards the partnership. Build it together, document it honestly, and let the law thank you for it.*

**ASK YOUR ADVISOR** *Hours tests, the grouping election, and material-participation proof are fact-specific and closely scrutinized. Set the structure and the recordkeeping up with your CPA **before** the year begins — not at filing time.*

# Chapter 14 — When the Bill Comes Due: Depreciation Recapture

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*You’ve taught me to accelerate every deduction I can. But a quiet voice keeps asking — when I finally sell, doesn’t the IRS want all of that back?*

It’s the right question, and the honest answer is: some of it, sometimes — unless you use the exits we’ll cover. This is the settling-up the code calls depreciation recapture. I’d rather you hear it plainly from me now than be surprised by it at a closing table later. The good news, which I’ll show you, is that recapture is usually smaller than feared and can often be deferred or erased entirely.

## Two kinds of recapture, taxed very differently

Not all depreciation comes back the same way. The code splits your deductions into two buckets when you sell, and the difference is worth real money:

**IN PLAIN ENGLISH** *Depreciation recapture:* when you sell, the IRS “recaptures” part of the depreciation you deducted and taxes it as gain. The building portion (Section 1250) is capped at a 25% federal rate; the cost-segregation components (Section 1245) are taxed at your ordinary rate.

What it covers	Code	Recapture rate
<b>The building (straight-line real property)</b>	§1250	max 25%
<b>Cost-seg parts (carpet, fixtures, FF&amp;E)</b>	§1245	ordinary (up to 37%+)

*The acceleration that helped most in year one is the same property that recaptures at the higher rate on a taxable sale.*

## The honest trade cost segregation makes

Here is the nuance even seasoned investors gloss over. Cost segregation moves dollars off the building (1250, capped at 25%) and onto short-life components (1245, taxed at ordinary rates). So acceleration can quietly convert a future tax that would have been capped at 25% into one charged at your top ordinary rate. Why do it anyway? Two reasons. First, time value: a deduction taken today at your highest rate, against a recapture years away, with the difference invested and compounding in between, wins decisively. Second — and this is the heart of it — the exits in Chapters 11 and 12 can wipe the recapture out completely.

**RUN THE NUMBERS** Over your hold you claimed **\$3,000,000** of depreciation — **\$1,000,000** on the building (1250) and **\$2,000,000** on cost-seg components (1245). Sell for cash and the \$1M is taxed up to 25%, the \$2M up to your ordinary rate. But 1031 the property forward (Chapter 11) and the whole recapture defers. Hold to death and the step-up (Chapter 12) erases it entirely — your heirs inherit with a clean slate.

**CPA BLIND SPOT** The investors who get hurt are the ones who accelerated hard, then sold for cash with **no exit lined up** — blindsided by an ordinary-rate bill they could have deferred. Two

moves prevent it: plan the exit on the day you buy (a 1031 replacement identified in advance, per Chapter 11), and use **partial asset dispositions** along the way — writing off the remaining value of a roof or HVAC you tear out, so you're never carrying — or later recapturing — a component that no longer exists.

**SMILE & SUCCEED** *Recapture frightens people because it sounds like a punishment. It isn't. It's simply the code asking you to settle up — and the patient investor, the one who plans the exit before the entrance, almost never settles up at all. Plan the ending first, and the middle takes care of itself.*

**ASK YOUR ADVISOR** *How much recaptures, at what rate, and how a 1031 or step-up interacts with it depends entirely on your facts. Model the exit with your CPA long before you sell.*



# Chapter 15 — Your Retirement Accounts as a Buyer

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*I have a large IRA and an old 401(k) just sitting in the market. Can that money invest in your hotels — and what's the catch?*

Yes — retirement money can absolutely invest in private real estate, through a self-directed IRA or a Solo 401(k). Most investors never learn this is allowed. But there is a technical wrinkle the promoters who chase your rollover rarely mention, and a sophisticated investor needs to understand it before wiring a dollar.

## Two accounts, two doors

- 8. Self-directed IRA (SDIRA):** a specialized custodian holds alternative assets, and your IRA itself becomes the limited partner in the deal.
- 9. Solo 401(k):** available to those with self-employment income, more flexible — and, as you'll see, structurally advantaged for leveraged real estate.

## The catch nobody mentions: UBIT and UDFI

Almost every hotel deal carries a mortgage. When a tax-exempt account earns income from a business funded partly with borrowed money, the slice of profit attributable to that debt —

called unrelated debt-financed income — can be subject to a tax even inside your IRA. It applies only to the leveraged portion, not the whole return; but it surprises people who assumed an IRA was a tax-free wrapper for anything.

**IN PLAIN ENGLISH** *UBIT / UDFI*: a tax that can apply inside a retirement account when it earns money from a debt-financed business. Only the borrowed-money slice of the profit is exposed — not the entire investment.

## The good news, in two parts

This is where it turns in your favor, and where the two account types diverge.

- 10. Depreciation shelters the debt-financed income too.** The same bonus depreciation that shelters a taxable investor's K-1 also offsets the debt-financed income inside the IRA. In the early, depreciation-heavy years, the tax is often small or zero — it tends to surface only on a profitable sale.
- 11. The Solo 401(k) sidesteps it.** Under the rules for qualified plans, a Solo 401(k) is generally exempt from this debt-financed-income tax on real property. The very deal that triggers the tax inside an IRA often triggers none inside a Solo 401(k) — a distinction that can be worth a great deal to a self-employed investor.

**RUN THE NUMBERS** *An SDIRA invests \$200,000 in a hotel that's 65% financed. Roughly that 65% debt-financed slice of income is potential UDFI — but first-year bonus depreciation passed through on the K-1 typically wipes that income out, so the early-year tax is often \$0.*

*Hold the same investment in a **Solo 401(k)** instead, and the acquisition-debt tax generally disappears altogether.*

**CPA BLIND SPOT** Two traps live here. First, **prohibited transactions**: you and certain family members are “disqualified persons” — you cannot personally manage, use, or transact with your account’s investment, and self-dealing can disqualify the entire account. Second, when UBIT is owed, the account files its own **Form 990-T** and pays from account funds — many custodians won’t remind you. And remember: the active-loss strategies in Chapters 10 and 13 do nothing for retirement money — there’s no personal return for the loss to land on. The prize inside an IRA is tax-deferred (or, in a Roth, tax-free) growth.

**SMILE & SUCCEED** *I love watching a tired old 401(k) — money someone forgot they had — wake up and go to work in a real, tangible asset that serves real guests. Done with care and good counsel, it’s one of the most satisfying moves an investor can make.*

**ASK YOUR ADVISOR** *Self-directed structures, UBIT/UDFI, and the prohibited-transaction rules are unforgiving and account-specific. Work with a custodian and CPA who specialize in this **before** you invest.*



## Chapter 16 — Two More Levers: QBI & the State-Tax Workaround

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*We've covered depreciation down to the bone. Are there levers left that have nothing to do with depreciation at all?*

Two of them — and the 2025 law made both more durable. One trims the federal tax on the income your deals do show; the other rescues a state-tax deduction the 2017 law had taken away from high earners. Neither depends on depreciation, which makes them the perfect complement to everything before.

### **Lever one: the 20% QBI deduction (§199A)**

Income that flows through a partnership or LLC — including, often, income from a hotel run as a genuine trade or business — can qualify for a deduction of up to 20% of that income. The One Big Beautiful Bill Act made this deduction permanent. Notice the elegant mirror image: depreciation shelters a deal's early years, when it shows losses; QBI shaves the later years, once the property turns profitable. Across a full hold, the two cover opposite ends of the same timeline.

**IN PLAIN ENGLISH** *QBI deduction (§199A)*: a deduction of up to 20% of qualified business income from a pass-through, now a permanent fixture of the code. It rewards positive business income — so it helps in profit years, not loss years.

## Lever two: the SALT cap workaround (PTET)

The 2017 law capped the deduction for state and local taxes. The 2025 law raised that cap to \$40,000 — but phases it away for incomes above roughly \$500,000, which describes most readers of this book, and it's set to revert to just \$10,000 at the end of the decade. The workaround that survived all of this is the Pass-Through Entity Tax election. Your LLC or S-corp pays the state income tax at the entity level, where it's fully deductible against federal income — sidestepping the personal cap entirely. Most states now offer it.

**IN PLAIN ENGLISH** *PTET (pass-through entity tax): a state election that lets your business pay your state income tax for you, turning a capped personal deduction into a fully deductible business expense.*

Year	Personal SALT cap	High-earner phase-out begins
2025	\$40,000	\$500,000 income
2026	~\$40,400	~\$505,000 income
2030	reverts to \$10,000	—

*The personal cap is fragile for high earners; the PTET election routes around it. State rules and deadlines vary widely.*

**RUN THE NUMBERS** *A joint filer with \$750,000 of income pays \$60,000 in state tax. Personally, the phase-out drags their SALT deduction down to the \$10,000 floor — \$50,000 of deduction lost. Make the PTET election and the business deducts the full \$60,000 before the income ever reaches the personal return. At a 37% federal rate, that's roughly \$18,500 back — every single year.*

**CPA BLIND SPOT** PTET usually must be **elected and often paid by a specific state deadline** — frequently before year-end. Miss the date and the entire year's benefit is gone. States differ enormously in mechanics and credit treatment. Meanwhile QBI carries its own income thresholds and wage-and-property tests for high earners, and a move that helps one lever can pinch the other — so the two must be planned together, not in isolation.

**SMILE & SUCCEED** *These last two levers remind me that wealth-keeping is rarely one heroic move — it's a dozen quiet, well-timed decisions, each one small, compounding into something large. Stay curious, stay organized, and keep asking the next good question.*

**ASK YOUR ADVISOR** *QBI eligibility and PTET elections are state- and fact-specific, with hard deadlines. Coordinate both with your CPA early in the year.*

# **PART IV — BEFORE YOU WIRE A DOLLAR**

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## Chapter 17 — How a Hotel Syndication Actually Works

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*“You’ve shown me the tax magic. But back up a step — when I “invest in a syndication,” what am I actually buying, and how do I make money?”*

Everything in this book so far has ridden on top of one structure without ever quite naming it. Before you wire a dollar, you deserve to see the chassis the tax engine is bolted to. The good news is that a hotel syndication is simpler than it sounds: a group of investors pools their money, a professional sponsor buys and runs the hotel, and the profits flow back to everyone according to a deal struck up front. Let me walk you through the four things that matter — who’s who, how it’s financed, how you get paid, and how the deal moves through its life.

### **Who’s who: the GP and the LPs**

Every syndication has two kinds of people in it. The **General Partner (GP)** — also called the sponsor — is the team that finds the deal, raises the capital, signs on the loan, and runs the business plan day to day. That’s my team. The **Limited Partners (LPs)** are the investors who supply most of the equity, sit back, and receive their share of the cash flow and profits. As an LP, your liability is limited to the dollars you invest — your other assets are never on the hook — which is exactly why most investors hold this role.

**IN PLAIN ENGLISH** *General Partner vs. Limited Partner:* the **GP** does the work and carries the risk and the loan; the **LP** supplies capital and stays passive, with liability capped at the amount invested. Chapter 10's strategy is really a story about briefly stepping from LP into a GP-style role and back again.

## How it's financed: the capital stack

A hotel is rarely bought with equity alone. The money that buys the property is layered, and that layering is called the **capital stack**. At the bottom sits the **senior loan** (the mortgage) — the largest, cheapest, safest slice, paid first. Above it may sit a smaller layer of mezzanine or preferred equity. At the top sits the **common equity** — that's you and the other LPs. The top of the stack earns the most when things go well and is first to absorb a loss when they don't. Understanding where your dollars sit in that stack is the single best way to understand your risk, which is the whole subject of the next chapter.

**IN PLAIN ENGLISH** *Capital stack:* the layered way a property is paid for — senior debt at the bottom (paid first, lowest risk), common equity at the top (paid last, highest risk and highest reward). Most LP investments are common equity.

## How you actually get paid

This is the part investors most want made plain. Your return generally arrives through four channels:

- **Cash flow** — the hotel's profit after expenses and debt service, distributed to investors, often quarterly, while you hold.
- **The preferred return** — a priority slice of that cash flow that LPs receive *before* the GP shares in profits. An

8% “pref” means you get the first 8% per year on your money before the sponsor participates.

- **The profit split (the waterfall)** — once the pref is paid, remaining profits are divided on an agreed schedule, often something like 70% to LPs and 30% to the GP, sometimes with tiers that reward the GP more as returns climb.
- **The capital event** — the big one: when the hotel is refinanced or sold, the gain is divided through that same waterfall. For most well-run deals, this is where the majority of an investor’s total profit is made.

**IN PLAIN ENGLISH** *Preferred return & waterfall:* the **pref** is the priority return LPs collect first; the **waterfall** is the agreed order in which every dollar of profit flows — pref first, then splits between LPs and the GP. It’s all written into the operating agreement before you invest.

### **RUN THE NUMBERS**

You invest **\$100,000** in a deal with an **8% preferred return** and a **70/30** split above it.

In a year the hotel distributes enough for your full pref: you receive **\$8,000** before the GP earns a dime of promote.

When the hotel sells years later, your share of the gain flows through the same waterfall — pref first, then 70% of the upside to you. Across a five-year hold, a healthy deal might return roughly **1.7–2.0×** your capital. *Illustrative only — every deal is different, and projections are not promises.*

## **What the sponsor earns — and why alignment matters**

A GP is compensated for the work and the risk, typically through some combination of an **acquisition fee** at purchase,

an ongoing **asset-management fee**, and a **disposition fee** at sale, in addition to the promote (the GP's share of profits above the pref). None of that is hidden or improper — it's how operators stay in business. What you want to see is *alignment*: a sponsor who invests meaningful personal money alongside you, earns most of their reward only when you do well, and discloses every fee plainly. The single best question you can ask is, "How much of your own money is in this deal?"

## How the deal moves: the business plan

A hotel syndication isn't a savings account; it's a business with a beginning, middle, and end. The arc usually looks like this: **acquire** the asset — ideally below replacement cost — then **reposition** it (renovate rooms, complete a brand-mandated **Property Improvement Plan**, sharpen operations), then **stabilize** it so revenue and profit climb, and finally **refinance or sell** to realize the gain. Typical holds run three to seven years. The early stretch can be lean while capital goes into the property — a pattern called the J-curve — before cash flow and value rise. That whole journey is what produces the depreciation, the K-1s, and the eventual exit you've read about in the earlier chapters.

**IN PLAIN ENGLISH** *PIP (Property Improvement Plan)*: a renovation scope a hotel brand requires to keep or refresh its flag. It's a real capital obligation — well-run deals budget and reserve for it from day one rather than springing a capital call later.

## Are you eligible? A word on “accredited”

Because our offerings are private placements under Regulation D, Rule **506(c)**, they’re open only to **verified accredited investors**. In broad strokes, that generally means an individual income above \$200,000 (or \$300,000 jointly) for the past two years with the expectation it continues, *or* a net worth above \$1 million excluding your primary residence — and certain license holders qualify too. Under 506(c), a sponsor must take reasonable steps to *verify* that status, which is why you’ll be asked for documentation rather than just your word. Your advisor can confirm where you stand.

**IN PLAIN ENGLISH** *Regulation D 506(c)*: the rule that lets sponsors raise capital from — and publicly talk about offerings to — **verified accredited investors** only. The verification step protects you as much as it protects the sponsor.

### CPA BLIND SPOT

The most valuable document in any deal is the one investors skim and lawyers read: the **operating agreement** (and the PPM). Everything in this chapter — the pref, the waterfall, every fee, and crucially the *tax structure* from Chapters 10 and 13 — lives there in black and white. If a benefit isn’t written into those documents, it doesn’t exist, no matter what a webinar promised. Read them, or have your advisor read them, before you wire anything.

### SMILE & SUCCEED

*I’ve always believed that confused investors are vulnerable investors, and clear ones are confident ones. There’s no part of how a deal works that you shouldn’t be allowed to understand in plain English. When a sponsor is happy to slow down and explain the chassis — not just the shiny tax engine — that’s a sponsor who respects you. Demand that respect.*

**ASK YOUR ADVISOR** Deal structures, fees, and investor eligibility vary widely. Have your advisor review the operating agreement and PPM, and confirm your accredited status, before you commit capital.

# Chapter 18 — What Could Go Wrong (and How We Plan for It)

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*“You’re clearly excited about hotels — but I’ve made my money by asking the hard question first. Be straight with me: what can go wrong here?”*

This is my favorite question an investor can ask, and the speed and candor of a sponsor’s answer tells you almost everything. A book that sells only the upside isn’t a guide; it’s a brochure. So let me do the opposite of a brochure. Hotels are powerful, but they are also the most economically sensitive real estate you can own, and you should understand exactly why before a single dollar leaves your account.

## **The double edge of repricing every night**

Back in Chapter 8, I celebrated the fact that a hotel resets its price every morning — a beautiful inflation hedge on the way up. Honesty requires the other half of that sentence: the same feature is what makes hotels fall *fastest* when demand drops. An apartment’s rent is locked for a year; a hotel’s revenue can soften in a week. We all watched this in 2020, when travel simply stopped. That memory isn’t a reason to avoid hotels — the best assets were bought in exactly those moments — but it is a reason to respect them and to insist on conservative structure.

## The real risks — and how a careful sponsor plans for each

- **Demand and cyclical**ity. Recessions and travel shocks hit hotels first. *Plan for it:* buy below replacement cost so you're the low-cost operator, hold long enough to ride a cycle, and keep cash reserves.
- **Leverage and interest rates.** Debt magnifies gains — and losses. Too much of it, or a loan that resets at a bad time, can sink an otherwise good hotel. *Plan for it:* modest loan-to-value, fixed-rate or rate-capped debt, and room to breathe in the coverage ratio.
- **Operations.** A hotel is an operating business, not a passive lease — hundreds of guests, staff, and decisions every day. Weak management can ruin a great building. *Plan for it:* seasoned operating partners with a real track record on that property type and flag.
- **Capital obligations.** Brands mandate renovations (the PIP), and furniture and equipment wear out. *Plan for it:* fund FF&E and capital reserves up front so improvements don't become surprise capital calls.
- **Liquidity.** Your LP interest is not a stock; you generally cannot sell it on a whim. *Plan for it:* invest only money you won't need during the hold, and size the commitment accordingly.
- **The J-curve.** Early years can be lean while capital goes into repositioning, before value and distributions climb. *Plan for it:* expect it, and don't judge a value-add deal by year one.
- **Market and new supply.** A flood of new hotels nearby can pressure rates. *Plan for it:* disciplined market

selection and a hard look at the construction pipeline before buying.

- **Execution and tax-structure risk.** The business plan can be missed — and the tax benefits from Chapters 10 and 13 can be *denied* if material participation isn't genuine and documented. *Plan for it:* back proven sponsors, and treat the tax structure as something to earn and prove, never assume.

**IN PLAIN ENGLISH** *LTV, DSCR & reserves:* **LTV** (loan-to-value) is how much of the price is borrowed; **DSCR** (debt-service coverage) is how comfortably income covers the loan payment; **reserves** are cash set aside for capital needs and rainy days. Conservative numbers on all three are what let a deal survive a bad year.

### **RUN THE NUMBERS**

Two identical hotels each see a recession cut NOI by **20%**.

**Hotel A** was financed at a careful **60% LTV** with healthy reserves — income still covers the loan, distributions pause, the deal rides out the storm and recovers.

**Hotel B** was pushed to **80% LTV** with thin reserves — the same 20% drop breaks its loan coverage, forcing a distressed sale at the worst possible moment.

*Same building, same downturn. Structure is the difference between a pause and a loss.*

### **BLIND SPOT (THE BIG ONE)**

The most dangerous risk in this entire book isn't in any of the bullets above — it's letting the tax tail wag the investment dog. A giant first-year deduction is worthless if it's strapped to a bad asset bought at a bad price. I've watched investors chase depreciation into deals they'd never have touched on the merits. **Underwrite the hotel first as if there were no tax benefit at all.** If it's a deal you'd be proud to own without the

deductions, *then* let the tax advantages make a good thing better.

### **CASE STUDY (ILLUSTRATIVE)**

Two sponsors buy similar hotels just before a downturn. The first underwrote conservatively — low leverage, fully funded reserves, a basis below replacement cost — and when revenue dipped, they simply paused distributions, protected the asset, and sold years later for a strong gain once the market healed. The second stretched leverage to juice projected returns and skipped reserves; the same dip triggered a cash crunch and a forced sale at a loss. Identical markets, opposite outcomes. The lesson investors take away: *how* a deal is built matters more than how good the brochure looks.

### **SMILE & SUCCEED**

*Telling you what could go wrong is not pessimism — it's respect. I've been through full cycles, and the operators who endure are the ones who fall in love with protecting capital, not with their own projections. Hope is not a strategy; humility and reserves are. Plan for the storm on the sunny day, and you get to keep smiling through both.*

**ASK YOUR ADVISOR** *Risk tolerance, time horizon, and liquidity needs are deeply personal. Review any specific deal's leverage, reserves, and downside scenarios with your own financial advisor before investing.*

## Chapter 19 — One Deal, Start to Finish: A Full-Cycle Case Study

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*“Now put it all together for me. Walk one investor through a single deal — beginning to end — the money, the taxes, and the exit.”*

We’ve assembled every part of the machine. Let me run one investor through it from first wire to final step-up, so you can watch the pieces move together. Meet **Dr. Mehta**, a fictional investor, a high-earning physician, married, filing jointly, who wants her capital working harder and her tax bill smaller. She invests **\$200,000** into an illustrative 150-key select-service hotel. *Everything that follows is illustrative — it is not a specific offering and not a promise of any result.*

### **Year 0 — the entry**

The hotel is acquired below replacement cost. The capital stack is a conservative senior loan plus LP equity, with FF&E and operating reserves funded at closing. Because the sponsor built the Chapter 10 structure into the offering, Dr. Mehta enters year one as a **managing member**, intending to genuinely participate enough to clear a material-participation test — then convert to limited-partner status in year two.

## Year 1 — the paper loss that does the heavy lifting

A cost segregation study reclassifies a large share of the building into short-life property, and 100% bonus depreciation deducts it immediately. Dr. Mehta's K-1 reports a first-year loss of roughly **\$280,000** — more than her entire investment. Because the hotel is a trade or business (not a rental) and she materially participates this year, that loss is **non-passive**, available against her active income — subject to the §461(l) cap from Chapter 10, which meters any excess into next year as an NOL. Meanwhile, she still receives a modest cash distribution. She converts to LP status in year two.

### RUN THE NUMBERS

Invested: **\$200,000** (entering as managing member, year one).

Year-1 K-1 loss: ~**\$280,000** (cost seg + 100% bonus), treated as **non-passive**.

Used against active income up to the joint §461(l) cap (**\$512,000** in 2026); any excess carries forward as an NOL. First-year cash distribution still received. *Illustrative figures — confirm with your CPA.*

## Years 2–4 — stabilize and collect

Now an LP, Dr. Mehta enjoys the deal passively. The repositioning completes, operations sharpen, and NOI climbs. She receives quarterly distributions through her preferred return — cash that is often largely sheltered by remaining depreciation, so it spends without a heavy tax bill. The J-curve is behind her; the asset is humming.

## Year 5 — the exit, and a choice

The hotel is sold at a gain. Through the waterfall, Dr. Mehta receives her capital back plus her share of the upside — an illustrative total of roughly **1.8**× her investment across the hold. Now comes depreciation recapture (Chapter 14) — and the fork in the road. She can pay the tax; she can **1031** the proceeds into a larger hotel and defer it entirely (Chapter 11); or she can hold the replacement asset for life so that, one day, the **step-up in basis** (Chapter 12) wipes the deferred gain clean for her children. The patient investor who plans the exit on the day she enters almost never settles up at all.

### RUN THE NUMBERS

Across the full cycle (illustrative):

Invested **\$200,000** · Year-1 deduction ~**\$280,000** · distributions collected through the hold · sale returns ~**1.8**× capital.

The tax saved in year one alone — by sheltering active income — can rival a meaningful fraction of the original investment, then the exit is deferred via 1031 or erased via step-up.

*One deal, every tool in this book, working in sequence.*

### SMILE & SUCCEED

*I love this chapter because it turns a pile of tax code into a human story — a hardworking family that kept more, compounded it, and will one day hand it forward intact. That's the whole point. The strategies are only ever in service of the life and the legacy. Build the deal well, treat the guests and the investors right, and the numbers, and the blessings, tend to follow.*

**ASK YOUR ADVISOR** *This walkthrough is a simplified illustration, not a forecast or an offer. Your own results depend entirely on the specific deal, your tax situation, and current law. Model any real opportunity with your CPA and counsel before investing.*

# A FINAL WORD

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# Your Next Step — Keep More, Build a Legacy

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We've come a long way together, you and I. We started with a quiet, painful question — *why am I working this hard just to give so much of it away?* — and we answered it, piece by piece. You now understand the two buckets, the phantom expense of depreciation, the permanent return of 100% bonus depreciation, the hidden money a cost segregation study uncovers, the blind spots that silently drain returns, the special place hotels hold in the tax code, the bridge of the K-1, the path from passive to active, the art of deferral, and the legacy-making power of the step-up.

That's more than most investors will ever know. But knowledge alone has never made anyone wealthier. There is a canyon between *knowing* and *doing*, and everything that matters happens on the far side of it.

So here is my one ask of you: **don't close this book and file it away.** Take a single idea — just one — and bring it to your advisor this week. Ask the question you didn't know to ask before. That one conversation can change the trajectory of your family's wealth for generations.

I came to this country with little more than a few dollars, a suitcase, and an unshakable belief that opportunity is real for those willing to learn the rules and do the work. Everything I have was built on that belief. This book is me handing you the rules. The work — and the reward — are yours.

# An Invitation: The Moneil Elite Accredited Investors Club

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If reading this has stirred something in you — if you're thinking *I want to put these ideas to work in a real asset* — then I'd be honored to walk alongside you. MONEIL is our legacy brand of our boutique equity firm; it came from our children, Monica & Neil put together = MONEIL.

For years, my team and I have acquired and operated hotels, multifamily and senior livings the careful way: **conservatively underwritten, bought below replacement cost where we can, and run by seasoned operating partners.** We don't chase deals. We protect capital first, and we structure our offerings so that the tax advantages in this book aren't just theory — they're built in from day one.

I'd like to invite you into the conversation:

- **Join the Moneil Elite Accredited Investors Club.**

It's our community of like-minded accredited investors and family offices — my "Mastermind Family." Members get first look at our current offerings, ongoing education on the strategies in this book, and invitations to our intimate investor dinners around San Francisco East Bay area, Danville and at Blackhawk Country Club, where the best conversations always seem to happen. It's lot of fun and education at the same time. Do Consider to join sometime.

- **Subscribe to my newsletter.** Practical, no-fluff insights on hotel investing, tax strategy, and building lasting wealth — delivered straight to your inbox.
- **See how it actually works.** If you'd like to explore how these strategies live inside a real, well-underwritten hotel investment, the best next step is simply a conversation.

***Book a call with me:***

***[vinneychopra.com/calendar/](http://vinneychopra.com/calendar/)***

## **Before You Invest — Five Questions to Ask Any Sponsor**

*Whether you ever invest with us or not, protect yourself. Ask every sponsor:*

*(1) How conservatively is this underwritten — and what happens if you're wrong?*

*(2) How much of your own money is in the deal?*

*(3) What's your full-cycle track record, including the deals that didn't go perfectly?*

*(4) Exactly how are the tax benefits structured, and who blessed that structure?*

*(5) How and when do I get my capital back? A great sponsor welcomes every one of these.*

*A note for the careful reader: our offerings are available only to verified accredited investors, through formal offering documents. Nothing in this book is an offer of any security or a promise of any result. Past performance does not guarantee future outcomes. Come as a learner first; invest only when it's right for you and your advisors agree.*

# Frequently Asked Questions

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Over the years, the same honest questions come up at every dinner table. Here are the ones I hear most, answered plainly. Every one of them ends, in spirit, with “ask your advisor” — because your situation is yours alone.

## **Am I an accredited investor — and how do I know?**

Generally, yes if your income exceeded \$200,000 (or \$300,000 with your spouse) in each of the last two years with the expectation it continues, *or* your net worth exceeds \$1 million excluding your primary residence. Certain professional license holders also qualify. Under Rule 506(c), a sponsor must verify this, so you’ll be asked for documentation. (See Chapter 17.)

## **How much do I typically need to invest?**

Minimums vary by offering, but private hotel syndications commonly start in the \$50,000–\$100,000 range. The right amount is one you can commit for the full hold without needing it back early.

## **How illiquid is this — can I get my money out early?**

Treat it as illiquid. Your capital is generally committed for the life of the deal (often three to seven years), and there’s no public market to sell your interest. Only invest money you won’t need in the meantime.

## **How often will I get paid?**

Many deals distribute cash flow quarterly once the property is stabilized, ahead of your preferred return. The largest payout, though, usually comes at the capital event — a refinance or sale. (See Chapter 17.)

## **When will I get my K-1, and will it delay my taxes?**

Partnership K-1s often arrive on extension, sometimes in late winter or spring. It's wise to plan on filing your personal return on extension too. (See Chapter 9.)

## **Isn't hotel investing risky — especially after 2020?**

Hotels are the most economically sensitive real estate, and yes, 2020 was brutal. That's exactly why structure matters: below-replacement basis, modest leverage, funded reserves, and seasoned operators. Risk is managed, never eliminated. (See Chapter 18.)

## **Can the losses really offset my W-2 or practice income?**

For most passive real estate, no. For hotels structured correctly — where you genuinely materially participate — it can be possible, because a hotel is a trade or business, not a rental. It's powerful but demanding, and it must be built into the deal and documented. (See Chapters 10 and 13.)

## **Can I invest through my IRA, 401(k), trust, or LLC?**

Often yes — through a self-directed IRA or Solo 401(k), or via a trust or LLC. Each has wrinkles (for retirement accounts, watch UBIT/UDFI and prohibited transactions), so set it up

with a specialized custodian and your CPA first. (See Chapter 15.)

### **What happens if I pass away during the deal?**

Your interest passes to your heirs, who generally receive a step-up in basis to fair market value — one of the most powerful provisions in the code for families. Coordinate it with your estate plan. (See Chapter 12.)

### **What are all the fees?**

Sponsors are typically paid through some mix of acquisition, asset-management, and disposition fees plus a share of profits above your preferred return. None of this is improper — what matters is that it's disclosed plainly and that the sponsor has real money alongside yours. (See Chapter 17.)

### **What if there's another downturn or pandemic?**

A conservatively structured deal is built to pause distributions and protect the asset rather than be forced into a bad sale. Ask every sponsor to show you their downside scenario. (See Chapter 18.)

### **How do I get started and vet a sponsor?**

Begin with the five questions at the end of this book, ask how much of the sponsor's own money is in the deal, read the operating agreement, and bring it all to your advisor. When it's right, a conversation is the natural next step.

# Glossary — The Language of the Deal

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Keep this page handy. These are the terms you'll meet in offering documents and on sponsor calls, in one place and in plain English.

**Accredited Investor** — An individual who meets income (>\$200K, or >\$300K jointly) or net-worth (>\$1M excluding home) thresholds, qualifying them to invest in private offerings.

**ADR / RevPAR / NOI** — Average Daily Rate (the nightly room price), Revenue Per Available Room (rate × occupancy), and Net Operating Income (profit after operating expenses) — the three numbers that drive a hotel's value.

**Asset-Management Fee** — An ongoing fee paid to the GP for overseeing the investment and business plan.

**At-Risk Rules** — Tax rules limiting your deductions to the amount you actually have economically at stake in a deal.

**Bonus Depreciation** — A rule allowing 100% of qualifying short-life assets to be deducted in year one — made permanent by the 2025 OBBBA. (Ch. 5)

**Capital Stack** — The layered financing of a property — senior debt at the bottom, common equity (LPs) at the top. (Ch. 17)

**Cash-on-Cash Return** — Annual cash distributions divided by the cash you invested — a measure of current yield.

**Cost Segregation** — An engineering study that reclassifies building components onto faster (5-, 7-, 15-year) depreciation schedules. (Ch. 6)

**Depreciation** — A non-cash “phantom” deduction for a building’s gradual wearing out. (Ch. 4)

**Depreciation Recapture** — Tax owed at sale on prior depreciation — §1250 (building, capped 25%) and §1245 (cost-seg parts, ordinary rates). (Ch. 14)

**DSCR** — Debt-Service Coverage Ratio — how comfortably a property’s income covers its loan payment.

**Equity Multiple** — Total dollars returned divided by dollars invested (e.g., 2.0× means you doubled your money over the hold).

**Excess Business Loss Limitation (§461(I))** — A yearly cap on how much net business loss can offset non-business income; the excess carries forward as an NOL. (Ch. 10)

**FF&E** — Furniture, Fixtures & Equipment — the short-life assets that make hotels so rich for cost segregation.

**General Partner (GP) / Sponsor** — The team that sources, finances, and operates the deal and carries the loan and liability. (Ch. 17)

**Grouping Election** — An election to treat multiple properties as one activity, so material-participation hours count across the whole portfolio. (Ch. 13)

**IRR** — Internal Rate of Return — an annualized return that accounts for the timing of cash flows.

**J-Curve** — The pattern of lean early returns during repositioning, before cash flow and value rise. (Ch. 18)

**K-1 (Schedule K-1)** — The form a partnership sends each partner reporting their share of income, loss, and deductions. (Ch. 9)

**Limited Partner (LP)** — A passive investor whose liability is capped at the amount invested. (Ch. 17)

**LTV** — Loan-to-Value — the share of a property's price that is borrowed.

**Material Participation** — The IRS test (e.g., >500 hours) for being “active” in a business, which can make losses non-passive. (Ch. 10)

**Opportunity Zone (QOZ)** — A program to defer capital gains and earn tax-free appreciation by investing in a Qualified Opportunity Fund. (Ch. 11)

**Passive vs. Active Income** — The tax code's two “buckets”; losses generally stay in their own bucket. (Ch. 3)

**Preferred Return (“the pref”)** — A priority return LPs receive before the GP shares in profits. (Ch. 17)

**PIP** — Property Improvement Plan — a brand-mandated renovation requirement. (Ch. 17)

**PTET** — Pass-Through Entity Tax — a state election that sidesteps the personal SALT cap. (Ch. 16)

**QBI (§199A)** — A deduction of up to 20% of qualified pass-through business income, now permanent. (Ch. 16)

**QIP** — Qualified Improvement Property — interior improvements with a 15-year life that are bonus-eligible. (Ch. 7)

**Regulation D 506(c)** — The rule permitting public solicitation of verified accredited investors for a private offering. (Ch. 17)

**REPS** — Real Estate Professional Status — a status (often met via a spouse) that frees ordinary rental losses. (Ch. 13)

**Step-Up in Basis** — The reset of an asset's basis to market value at death, erasing built-up gain for heirs. (Ch. 12)

**Syndication** — A pooled investment in which many investors fund a deal run by a sponsor. (Ch. 17)

**UBIT / UDFI** — Taxes that can apply inside a retirement account on debt-financed business income. (Ch. 15)

**Waterfall** — The agreed order in which profits are distributed — pref first, then LP/GP splits. (Ch. 17)

**1031 Exchange** — Rolling sale proceeds into a like-kind property to defer the tax. (Ch. 11)

## About the Author

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**Vinney (Smile) Chopra** is the founder and CEO of Moneil Investment Group, a real estate syndication firm specializing in hotels and hospitality, multifamily, and senior living. He arrived in America with little more than a few dollars and a determination to build something lasting — and he did. Over a multi-decade career, Vinney has overseen a portfolio spanning

**7,500+ multifamily units and more than 35 full-cycle transactions**, raised **\$250 million-plus** from accredited & sophisticated investors, and built a growing hospitality, multifamily and senior-living platform with *\$1 Billion+ transactions*. He is a **four-time Amazon best-selling author**, whose most recent book, *Hospitality Investing Made Easy*, distills decades of hard-won experience for everyday investors.

A devoted student of the *Hanuman Chalisa*, *Bhagavad Gita*, *Think and Grow Rich*, and the abundance mindset, Vinney built his life and business on a single philosophy he shares with everyone he meets: **Smile and Succeed**. He hosts several popular podcasts, mentors a worldwide community he affectionately calls his "Mastermind Family," and works alongside his daughter, Monica Chopra and his wife, Kanchan Chopra. He lives and works in Danville, California.

# Where to Find Vinney (Smile) Chopra


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