



REAL ESTATE PROFESSIONAL STATUS (REPS) QUICK WALKTHROUGH

What Is Real Estate Professional Status (REPS), and Why Does It Matter?

REPS is an IRS designation that allows individuals who materially participate in real estate activities to treat rental losses as **non-passive**. This reclassification enables these losses to **offset other income**, such as wages or business income, **potentially reducing overall tax liability**.

How Do I Qualify for REPS?

To qualify for REPS, you must meet **both** of the following IRS requirements:

#1 More Than 50% of Your Personal Services:
Spend more than half of your working time in real property trades or businesses in which you materially participate.

#2 At Least 750 Hours of Service:
Perform more than 750 hours of services during the tax year in real property trades or businesses in which you materially participate.

What Activities Count Toward the 750-Hour Requirement?

✓ QUALIFYING ACTIVITIES INCLUDE	✗ ACTIVITIES THAT DO NOT COUNT INCLUDE
<ul style="list-style-type: none">Development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage of real estate	<ul style="list-style-type: none">Education, research, or investment analysisCommuting or travel timeTime spent as an employee (unless you own more than 5% of the business)

What Is Material Participation, and How Is It Determined?

Material participation means being involved in the operations of the activity on a **regular, continuous, and substantial basis**. The IRS Publication 925 provides seven tests to determine material participation, which can be viewed at <https://www.irs.gov/forms-pubs/about-publication-925>, including:

- 1) 500-Hour Rule:** You participated in the activity for more than 500 hours during the year.
- 2) Substantially All Rule:** You did most or all of the work in the activity compared to everyone else.
- 3) 100-Hour + Most Rule:** You participated over 100 hours and more than anyone else.
- 4) Significant Participation Rule:** You participated over 100 hours in multiple activities and 500+ hours in total.
- 5) 5-Out-of-10 Rule:** You materially participated in the activity for any 5 of the last 10 years.
- 6) 3-Year Personal Service Rule:** For personal service industries, you materially participated for any 3 prior years.
- 7) Facts and Circumstances Test:** You participated regularly, continuously, and substantially based on all the facts.

How Should I Document My Time and Activities to Support REPS?

Proper documentation is crucial. Maintain a contemporaneous log detailing:

- Dates and hours worked
- Specific activities performed
- Corresponding properties or projects

Supporting documents like emails, invoices, and calendars can strengthen your records. In the event of an IRS audit, thorough documentation can substantiate your REPS claim.

Final Thoughts

Achieving REPS can offer significant tax benefits, but it requires strict adherence to IRS guidelines and meticulous record-keeping.

Consulting with a tax professional experienced in real estate can help ensure compliance and help maximize your tax savings.



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Have Questions on Real Estate Professional Status?



Schedule a 15-Minute Discovery Call to Discuss!



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