



# SHORT-TERM RENTAL TAX STRATEGY QUICK WALKTHROUGH

Are you tired of the large tax bills, year after year, and your tax deductions just are not making a dent in what you owe the IRS? Are you looking for legal ways to reduce your tax bill? We may have a solution that could potentially help you out!

## What's the STR Tax Strategy?

The STR Tax Strategy uses short-term rental properties (avg. stay of 7 days or less, like Airbnb or Vrbo) to:

- 1) Generate income.
- 2) Create tax-deductible expenses.
- 3) Accelerate depreciation to reduce taxable income.

## Why Is the STR Strategy Different?

Most rental income is considered passive, which limits its ability to offset other types of income (like W2 wages)...

However, STRs are **not** subject to passive loss limitations if material participation is met—no need for **Real Estate Professional Status (REPS)**.

- ✓ STRs can offset active income
- ✓ REPS not required
- ✓ Powerful tool for W2 earners, business owners, and investors

## Active vs. Passive Income

- **Active Income:** You work for it (W2, self-employment, etc.).
- **Passive Income:** Income without day-to-day involvement (limited partnerships, rental income).

STR strategy allows rental income to be treated as active, enabling greater tax flexibility.

## How STR Qualifies as Active

Per IRS Section 469, rental activities are normally passive—but STRs are an exception if:

- ☛ Average guest stay is under 7 days, **OR**
- ☛ Average stay is under 30 days with substantial services (cleaning, meals, transport), **OR**
- ☛ You meet one of the material participation tests.

See IRS Publication 925 at <https://www.irs.gov/forms-pubs/about-publication-925>.

💡 *Pro tip: Use a cost segregation study with bonus depreciation to speed up tax savings. Be sure to assess long-term plans, as this can impact taxes when you sell the property.*

## What is Cost Segregation?

Allows for identifying portions of a property that can be depreciated over a shorter period than the 39-year or 27.5-year methods. It can identify substantial tax-saving opportunities for taxpayers who have constructed, purchased, or renovated a facility.

## What is Bonus Depreciation?

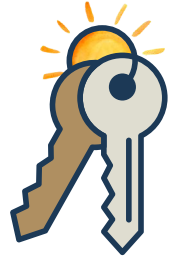
A tax incentive that allows a business to immediately deduct a larger percentage of eligible assets rather than write them off over the "useful life" of that asset.



## Material Participation Rules

You only need to meet one of these seven tests to qualify:

- 1) You worked 500+ hours on the property.
- 2) You did nearly all the work for the year.
- 3) You spent 100+ hours, more than anyone else.
- 4) You had 500+ hours total across all activities.
- 5) You participated in the business for 5 of the last 10 years.
- 6) You worked in personal services for 3 of the last 10 years.
- 7) Based on facts and circumstances, your involvement was regular and substantial.



**Pro tip:** Keep detailed records of time and activities! Also, **if you have multiple STRs**, you can elect to group them as one activity (Reg. §1.469-9(g)) to meet participation rules—just file it with your tax return.

### Real-Life Example

Let's say that Gary owns a short-term rental and puts in over 600 hours per year managing it. Here are some of the activities he used to meet his material participation:

- Advertising and marketing the property
- Responding to guest inquiries and booking requests
- Communicating with guests before, during, and after their stay
- Coordinating cleaning and maintenance
- Restocking supplies, linens, and household items
- Managing repairs or improvements
- Setting pricing, calendar, and platform management
  - (like Airbnb, VRBO)
- Travel time for property-related activities (if not commuting)
- Bookkeeping, paying bills, and tax prep related to the STR

**Important:** Time spent by a property manager or independent contractors (e.g., cleaners) does not count toward your hours.



### Smart Planning Steps

Help maximize the Short-Term Rental Strategy by following these steps:

- |                                       |   |  |   |  |
|---------------------------------------|---|--|---|--|
| <b>A</b>                              | <b>B</b>  | <b>C</b>                                       | <b>D</b>  | <b>E</b>   |
| Consult an advisor at Asset Strategy. | Run a cost segregation study to boost depreciation. | Track material participation hours diligently. | Understand depreciation timelines and bonus phase-outs. | Clarify in-service dates to properly start deductions. |

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If you have any questions on the STR Strategy, schedule a 15-Minute Discovery Call today!



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