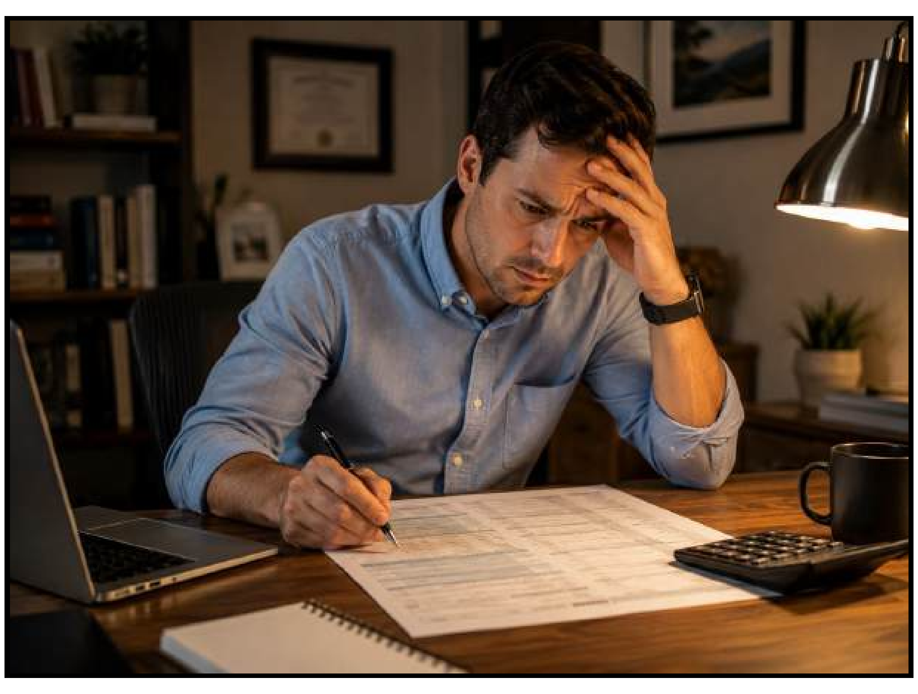
6 Short-Term Rental Tax Strategies Every CPA Should Know

1. Why High-Income W-2 Earners Run Out of Options

Self-employed professionals can deduct a wide range of business expenses to reduce their tax liability, but salaried employees have no equivalent mechanism. The tax code deliberately limits offsetting options for W-2 earners unless they own a business or separate income stream.



2. How IRC Section 469 Creates an Opportunity

IRC Section 469 classifies properties rented for seven days or fewer as short-term rentals, whose losses can be non-passive. That means qualifying owners can apply those losses directly against W-2 income, reducing their tax bill dollar-for-dollar.

3. What the Material Participation Standard Requires

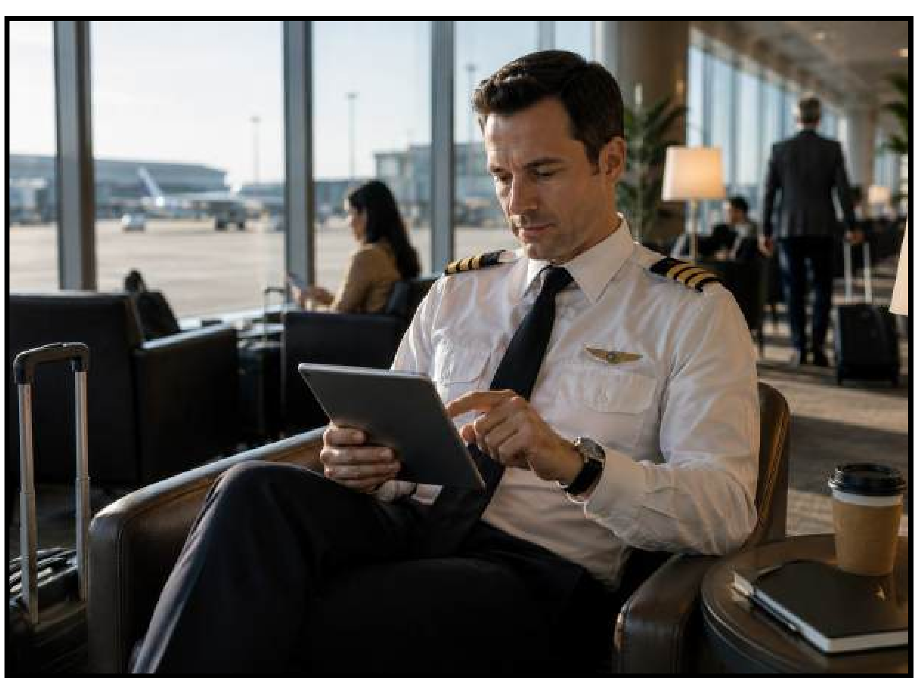
To qualify for non-passive loss classification, a client must log at least 100 hours managing the property in the first year through activities like inspections, guest content creation, and market research. Once established, that classification carries forward without repeating the same threshold.

4. How Cost Segregation and Bonus Depreciation Help

A cost segregation study breaks a property into components with shorter depreciation timelines rather than depreciating the entire structure over 27.5 years. Combined with bonus depreciation, this allows certain shorter-life components to be fully deducted in year one, producing a significantly larger first-year deduction.

5. What This Looks Like in Practice

Without additional deductions beyond standard retirement contributions, most of their income is taxed at the top marginal rate. However, through a qualifying short-term rental, first-year material participation, and non-passive losses from cost segregation and bonus depreciation, they could offset a significant portion of that W-2 income.



6. Where Clients Stall (and What to Do About It)

The 100-hour participation requirement feels out of reach for busy professionals; a done-for-you operating model solves this. The firm handles daily management while the client handles only the qualifying tasks needed to secure the deduction.

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