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Right Rental Tax Strategy for High-Income W-2 Earners

1. How Section 469 Treats Rental Losses by Default

Under Section 469, rental losses are classified as passive and can only offset passive income, not W-2 wages, bonuses, or other non-passive income. Even a landlord who manages every decision and logs hundreds of hours a year still generates losses that do nothing against their current-year tax bill.



2. Real Estate Professional Status

Qualifying as a Real Estate Professional under Section 469 allows rental losses to offset W-2 income, but requires spending more than 750 hours in real estate and making it your primary professional activity. For most working W-2 earners, this requirement makes REPS effectively out of reach.



3. The STR Exception

The short-term rental exception treats properties rented for seven days or fewer as a business rather than a rental. When a W-2 earner meets the material participation standard for a qualifying property, the losses flow directly against their W-2 income without requiring a career change.



4. How to Make the STR Exception Work as a Busy W-2 Earner

Meeting the 100-hour material participation standard is manageable with the right structure. An operating partner can handle build-out, bookings, and daily operations while the W-2 earner focuses on qualifying activities like design input, inspections, guest content, and market research.



5. Which Strategy Is Right for You?

REPS requires restructuring your entire professional life and suits those already working full-time in real estate. The STR exception requires 100 documented hours in the first year and is built for high-income W-2 earners who want meaningful tax relief without leaving their primary career.



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