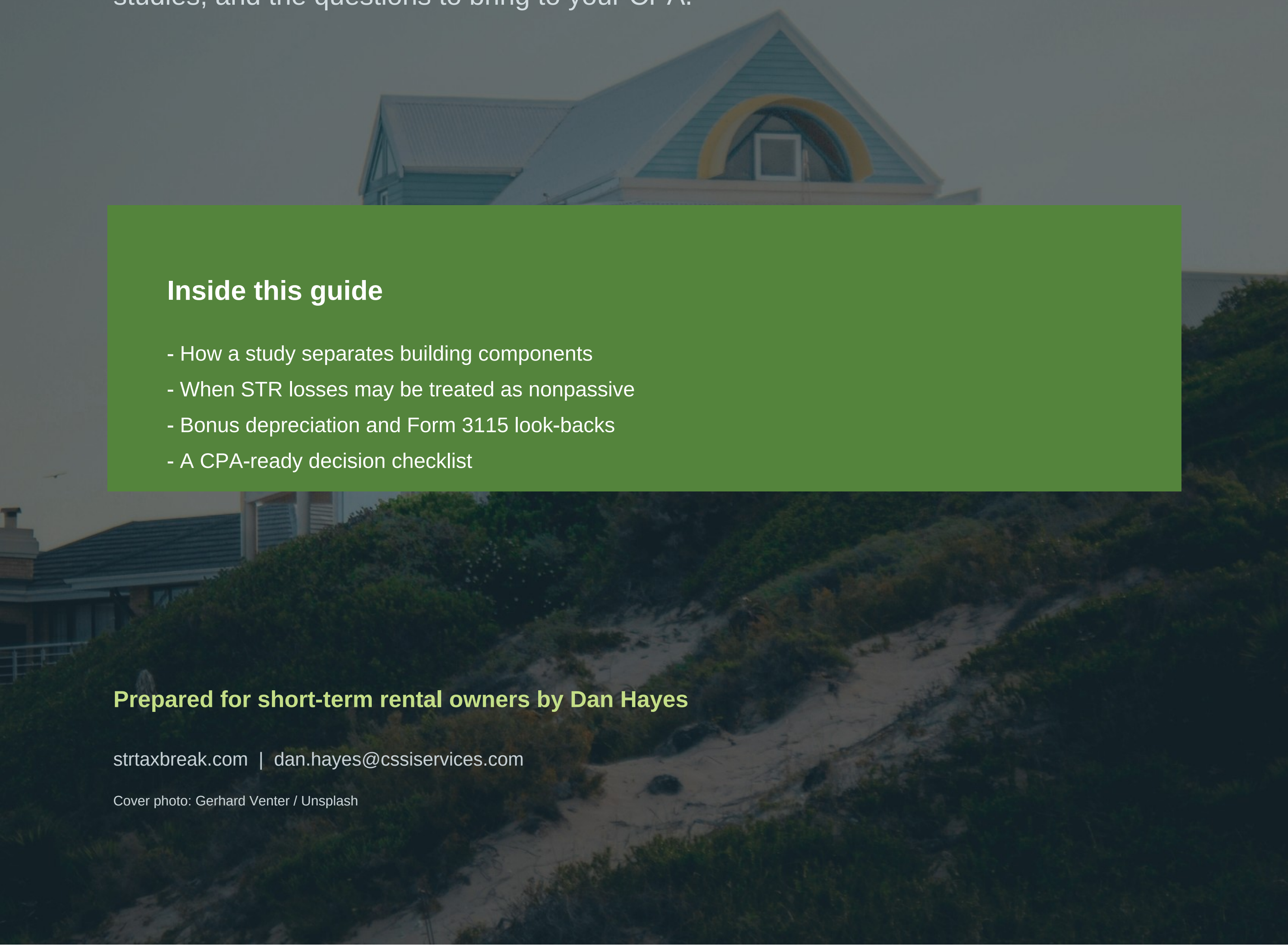
STR Tax Break

The Short-Term Rental Cost Segregation Guide

A plain-English guide to accelerated depreciation, the short-stay rules, look-back studies, and the questions to bring to your CPA.



Inside this guide

- How a study separates building components
- When STR losses may be treated as nonpassive
- Bonus depreciation and Form 3115 look-backs
- A CPA-ready decision checklist

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START HERE

Is a cost segregation review worth exploring?

A study can be valuable, but property facts, tax posture, participation, and timing all matter.

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Quick screen

The strongest candidates often own income-producing property with meaningful depreciable basis, expect taxable income to offset, and can document how the property was acquired, improved, furnished, and operated.

A review may be worthwhile when:

- OK The property is held for business or investment use and has been placed in service.
- OK The building and improvements represent a meaningful portion of total cost after land is removed.
- OK The property includes furniture, appliances, specialty finishes, landscaping, or other separable components.
- OK You have taxable income and your CPA believes accelerated deductions could be used under your facts.
- OK You purchased the property in a prior year but never completed a study; a Form 3115 look-back may be available.
- OK You can provide purchase, closing, improvement, and placed-in-service records for review.

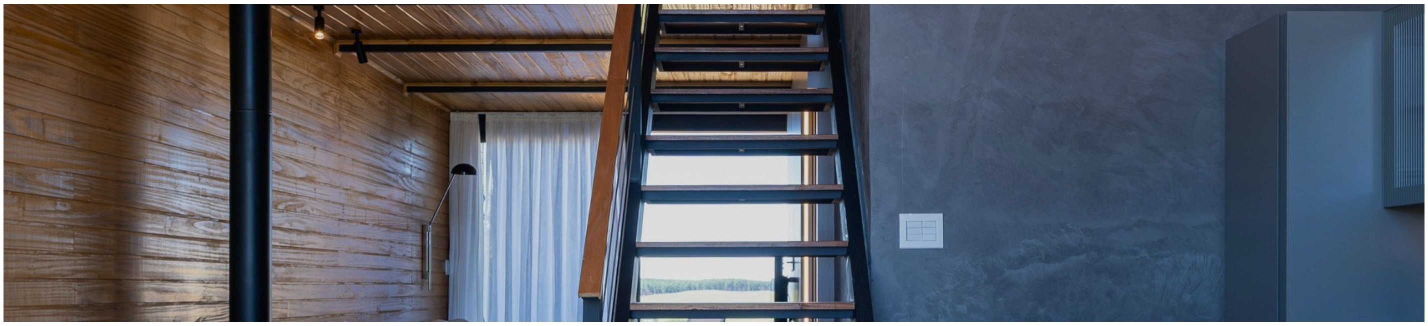
Do not skip the tax-law screen

Cost segregation determines how property costs are classified and depreciated. It does not, by itself, decide whether a loss is passive or currently usable. Your CPA should review material participation, personal use, at-risk rules, basis, grouping, and state treatment.

THE MECHANICS

What a cost segregation study actually does

Instead of treating most of the building as one 27.5-year asset, an engineering-based study identifies components that may belong in shorter recovery classes.



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1. Establish depreciable basis

The analysis starts with acquisition or construction cost, improvements, and supporting records. Land is separated because land is not depreciable.

2. Identify and classify components

Property-specific components are reviewed under tax authorities and asset-class guidance. Examples may include certain flooring, cabinetry, decorative lighting, dedicated electrical, site improvements, fencing, and other items whose function and attachment support a shorter recovery period.

3. Build the depreciation schedules

The final report allocates basis among recovery classes and provides schedules for implementation. A qualified tax professional applies the results on the return.

4. Coordinate with the CPA

The taxpayer and CPA remain responsible for the return position. A strong report should explain methodology, records relied upon, classifications, and calculations clearly enough for CPA review and audit support.

Furniture, fixtures, and equipment

STR properties often contain separately purchased beds, sofas, appliances, electronics, hot tubs, and outdoor equipment. These items should be documented carefully; treatment depends on ownership, cost, use, and whether they are already accounted for separately.

STR TAX RULES

The 7-day rule is only part of the analysis

Short average stays can change how the activity is categorized under the passive-activity regulations, but they do not automatically make every loss deductible.

Average customer use of 7 days or less

Treasury Regulation 1.469-1T(e)(3)(ii)(A) generally excludes an activity from the definition of a rental activity when the average period of customer use is seven days or less. This is often called the short-term-rental exception.

Material participation still matters

If the activity is not treated as a rental activity, the taxpayer generally must still satisfy a material-participation test for the activity to be nonpassive. Time records, who performs the work, and participation by managers or contractors can matter.

Other limits may still apply

Basis, at-risk, excess-business-loss, personal-use, vacation-home, and state-law rules can limit or defer a deduction. A large depreciation number is not the same as an immediately usable tax benefit.

Bring these records to your CPA:

- OK Booking history showing the number and length of guest stays.
- OK A contemporaneous log of your participation hours and the work performed.
- OK Manager, cleaner, and contractor responsibilities and hours when available.
- OK Personal-use days and any owner stays.
- OK Prior-year depreciation schedules and returns for the property.

TIMING

Bonus depreciation and look-back studies

Cost segregation can accelerate eligible basis, but the applicable percentage and filing method depend on acquisition, placed-in-service, and prior-return facts.

Bonus depreciation

Eligible property with a recovery period of 20 years or less may qualify for bonus depreciation. The applicable percentage depends on federal law and the property's acquisition and placed-in-service dates. State conformity varies, so federal and state results may differ.

Already own the property?

A look-back study may identify depreciation that was allowable in prior years. Instead of amending each prior return, a taxpayer may be able to request an accounting-method change on Form 3115 and recognize a Section 481(a) adjustment in the current year.

CPA involvement is essential

Form 3115 has procedural requirements and timing rules. Your CPA should determine whether an automatic method change is available, calculate the adjustment, and file the required forms and statements.

Decision principle

Do not judge a study only by the headline Year 1 deduction. Compare the expected tax benefit, timing, study fee, recapture considerations, ownership horizon, and the likelihood that the deduction can be used.

Questions to ask before proceeding:

- Which recovery classes are likely relevant to this property and why?
- What records and inspection methods will support the classifications?
- How will existing depreciation and prior returns be reconciled?
- What is the expected federal and state impact under my facts?
- What audit support is included with the study?

CPA CONVERSATION

A practical review checklist

Use this page to organize the decision before ordering a study.

Property facts

- OK Purchase, construction, or major-renovation date and placed-in-service date
- OK Purchase price, land allocation, closing statement, and improvement costs
- OK Prior depreciation schedule and whether a study was previously completed
- OK Furniture, equipment, exterior improvements, and separately purchased assets
- OK Expected hold period and possible sale or exchange plans

Tax-use facts

- OK Average guest stay and personal-use days
- OK Material-participation hours and supporting records
- OK Current-year taxable income and ability to use losses
- OK Basis, at-risk, excess-business-loss, and state limitations
- OK Potential depreciation recapture and long-term planning

Suggested CPA question

Based on my property, participation, income, and state, would a cost segregation study likely create a deduction I can use, and should we evaluate a current-year study or Form 3115 look-back?

NEXT STEP

Request a no-obligation property review

Start with basic property facts. No tax returns or sensitive documents are required for the initial conversation.

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Short-term rental cost segregation property reviews

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Important disclaimer

This guide is general educational information, not tax, legal, accounting, or investment advice. It does not determine eligibility, passive-activity treatment, material participation, deduction amount, or return reporting. Results depend on the taxpayer, property, records, dates, use, and applicable federal and state law. Consult qualified professionals before acting.

Primary references for professional review

IRS Cost Segregation Audit Technique Guide; IRS Publication 946, How To Depreciate Property; Form 3115 and its instructions; Treasury Regulation 1.469-1T(e)(3)(ii); Internal Revenue Code Sections 168, 469, and 481. References are provided for orientation and should be checked for current updates.

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