Short-Term Rental (STR) Tax Advantage

The Short-Term Rental (STR) loophole applies when your average guest stay is 7 days or fewer and you materially participate in theactivity. This reclassifies the rental from a passive activity to a business activity.

The Result: You can deduct rental losses against your W-2 wages and other ordinary income without needing Real Estate Professional Status (REPS). When paired with cost segregation and accelerated depreciation, this can generate massive first-year tax deductions.

Key Rules

Seven Days Changes Everything
An average guest stay of 7 days or fewer moves the property out of "rental" tax rules and into "business" tax rules.

Material Participation Is The Gatekeeper
You still need to materially participate, most commonly by meeting the 100 hours and no one person did more than me test(there are other tests too).

No REPS Required
Unlike long-term rentals, you do not need to be a Real EstateProfessional to offset your other income with STR losses.

Top FAQs

Does hiring a property manager hurt my ability to qualify?
No. You can still materially participate even with a full-service PM as long as *you* hit your hours and no *single* PM employee individually as a human exceeds you. There are several tasks that you, as an owner, will routinely do outside of the PM but they must be hands-on tasks (approving listings, coordinating repairs,swapping furniture, etc.).

Can I use the STR loophole in the same year I buy the property?
Yes, as long as the property is placed in service (ready and available) and your average guest stay and material participation tests are met before December 31.

Can I still use the STR loophole if I stay at the property personally?
Yes, but personal use days are limited to 14 days or 10% of the fair rented days (whichever is higher). Days spent performingrepairs and maintenance do not count toward your personal uselimit.

Used correctly, the STR loophole can transform a rental property’s tax footprint from passive, and generally nondeductible for higher income earners to nonpassive and subsequently deductible. Proper execution makes all the difference.

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