(224) 814-3174
Sean Lichterman

COST SEGREGATION

FOR THE AIRBNB OWNER

WHAT IS IT?

Cost Segregation

Cost Segregation is an IRS-approved methodology for accelerating depreciation on your commercial property. By identifying and reclassifying certain assets within the building, you can reduce your tax liability and increase cash flow.

BENEFITS

1. Significant Tax Savings

By reclassifying components into shorter depreciable lifespans, property owners can reduce their taxable income

2. Improved Cash Flow

Reducing current-year tax burdens, allows property owners to reinvest savings into upgrades, acquisitions and more

3. Ehanced ROI

Optimizing depreciation schedules can boost property owners' net income, resulting in a more profitable long-term investment

KEY CONCEPTS

- STRs depreciate over 39 years
- Tax law allows for quicker depreciation on building components with a 5, 7 or 15 year lifespan
- The average acceleration for an Airbnb is between 20-40% or more of the property basis
- Qualify for Bonus Depreciation
- Pass through tax savings to personal income with **Short Term Rental Strategy**

One of the largest ***Tax Benefits*** *for short-term rental owners!*

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STR FAQS

Cost Segregation

Q: Are STRs depreciated over 27.5 years like a residential rental?

This is a common misunderstanding by both tax professionals and investors. STRs must be depreciated over 39 years like a commercial building, whether active or passive. Think of it this way, the transient stays and daily activities resemble that of a hotel/motel.

Q: Can furnishings for an STR be included in a cost segregation study?

Yes, if the furnishings were purchased prior to renting, they are depreciated over 5 years and can be included in a cost segregation study to maximize your depreciation and possible Bonus Depreciation.

Q: Can I take advantage of Qualified Improvement Property on my STR?

Yes, as long as it is a short-term rental and not a residential rental property. Short-term means customer stay is less than 30 days. If rented for longer periods of time it is most likely considered a residential rental which is not eligible for Qualified Improvement Property (QIP)

Q: Can I use the cost segregation benefits from my STR on my W2 income?

Yes! There are 7 ways to materially participate. However, you only need to fulfill one. One of the most common is spending at least 100 hours per year actively managing the property, more than any other person/ business. The average guest stay must be seven days or less. By meeting these requirements, you can apply the benefits against your W2 income.

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Straight Line Vs Cost Segregation

You buy an Airbnb property for $1,200,000 and the land value is $200,000, so your cost basis would be $1,000,000. Here's how it differs:

OPTION 1

You choose to take the depreciation over the 39 years, leaving you with a depreciation expense every year of $25,641. This depreciation expense can be applied against your rental taxable income.

OPTION 2

With Cost Segregation, you can expect to uncover 20-35%+ of the $1,000,000 cost basis that can be accelerated, or bonused in year 1 ($200k-$350k). This depreciation expense can be applied to your Airbnb taxable income or even your personal income if you materially participate (STR Strategy). In the first year of ownership, cost seg is 10x greater than the default straight line method

You will benefit from the full depreciation in nearly 40 years.

Accelerate your depreciation deductions within the earlier years of ownership!

Have a question? Want an estimate? Give me a call today!

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