



Short-Term Rentals - Frequently Asked Questions

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

A: This is a common misunderstanding by both tax professionals and investors. STRs must be depreciated over 39 years like a hotel, whether active or passive. Think of it this way, even if a hotel/motel is owned by an investor and he/she has managers who run it daily, it must be depreciated over 39 years.

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

A: Maybe. If you or your spouse materially participate in the property by spending at least 100 hours per year actively managing your STR and more than any other person or business entity, and the average customer stay is 7 days or less, the answer is yes. That property becomes an active investment, and the benefits can be used against your W2 income. If you or your spouse are not providing enough hours to be considered actively participating in the property, it becomes a passive investment, and the benefits can only be used against the income from that STR. See Treas. Reg. 1.469-5T(c)(2)

Q: Do I have to be a Real Estate Professional to make my STR an active investment?

A: No. The property is automatically an active investment/business if the owner is materially participating 100 hours or more per year and more than anyone else. IRS PDF 202229036.pdf-IRS

Q: Does my tax professional need to report my short-term rental on Schedule C?

A: Schedule E is what your tax professional will generally use. <https://www.irs.gov/pub/irs-wd/202151005.pdf> (see pages 3 & 4). Schedule C is needed if the owner provides significant services for the occupants' convenience, other than the space rental and to maintain the property. Examples of these significant services (regular cleaning, changing linen, maid service, transportation, tours, etc.) are described in Treas. Reg. Sec. 1.1402(a)-4(c)(2). See PDF link above.

Q: Can I take advantage of QIP on my STR?

A: 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 we include furnishings for an STR in our cost segregation study?

A: 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. <https://www.irs.gov/pub/irs-pdf/p527.pdf>

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