

Short Term Rental Tax Benefit

- Shelter income, diversify portfolio, benefit from potential cash flow, and use losses to offset other income sources.

Short vs Long Term Rentals

- Short-term rental (STR) properties are considered a nonpassive rental activity by the IRS if:
 - Average guest stay is 7 days or less
- Unlike long-term rentals, real estate professional status is not needed to make rental income non-passive.

Material Participation

- Rental losses from STRs can be used to offset non-passive income (like W2 salary) but must demonstrate material participation by meeting one of seven tests. The three most common are:
 - Participation for more than 500 hours
 - Substantially all participation
 - More than 100 hours and no less than anyone else
- Married? The time each spouse spends can be combined

Passive vs Nonpassive

- If passively involved you are subject to passive activity loss rules:
 - Not actively involved in operating the property
 - Losses are limited to passive income. Losses cannot exceed rental income.
- If nonpassive (STR+meet one of the seven tests):
 - Losses are not subject to passive loss rules
 - Rental losses can reduce W2 or other income

Personal Days vs. Maintenance Days

- To maximize tax benefit, personal use must be 14 days or less. OR 10% or less of total days rented, whichever is greater.
- If personal use is more than 14 days, deductions are in proportion to the time rented by guests.
- Maintenance days do not count towards personal days.
 - Use a checklist to maintain and document rental property maintenance days (There are tons on Google).

Common Tax Deductions and Benefits

- Section 179 for big improvements
- Bonus depreciation (Scheduled to begin phase out in 2023)
- Cost segregation
- 1031 exchange
- Property taxes
- Insurance
- Mortgage interest
- Marketplace fees
- Travel expenses

Managing Cash Flow

- Manage cash flows with a separate bank account(s).
- Track income and expenses on a regular basis.
- Keep cash reserves for unexpected expenses, maintenance, vacancy, etc.
- Budget for utilities, taxes, insurance, furnishing, maintenance, cleaning, basic supplies, and other things needed for the property.

Managing Risk and Liability

- Coverage provided by platforms might not be sufficient.
 - May need additional insurance (Vacation renter, short-term renter, commercial, etc).
- Homeowners or landlord insurance may not provide coverage for short-term rentals.
- An LLC(s) can protect liability but does not provide tax benefits (work w/ legal pro).

Important Notes

- Only invest in real estate if you want to own a business and it makes sense for your overall investment goals.
- Don't invest in real estate primarily for the tax benefit.
- If you provide substantial services, you may be subject to self-employment tax. Reported on Schedule C.
- Considered passive if there is no material participation.
- Allows more flexibility with your rental units, but also comes with risks (economy, location, regulations, etc.).
- Work with a tax and financial professional before investing in short-term rentals!