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SHORT-TERM RENTAL (STR) PROPERTIES

See What's Possible with Cost Segregation

WHAT IS COST SEGREGATION

- Engineering-based analysis that identifies and quantifies building components
- Components are then reclassified into shorter-lived tax categories, resulting in accelerated depreciation, tax deferral, and increased cash flow
- Front-loading of depreciation leverages the time value of money

WHAT REQUIREMENTS MUST BE MET TO MAXIMIZE TAX SAVINGS ON MY STR PROPERTY?

- To maximize tax savings, your STR losses must be classified as "non-passive." Only non-passive losses may be used to offset active income, thereby lowering your overall tax burden.
- To ensure losses are non-passive, you must:
- Rent your property for average stays of seven days or less **AND**
- Be a "material participant" in your business, by satisfying one of the following requirements:
  - Spend more than 500 hours on the short-term rental business
  - Do substantially everything for the STR business
  - Spend more than 100 hours on the business, more than any other individual does
  - These are the most common ways to obtain "material participant" status. There are other ways to do so -- consult your tax professional for further details regarding all relevant IRS requirements.

WHY PERFORM COST SEGREGATION

- Accelerated depreciation can create $30,000-$250,000 in federal tax benefits for every $1M spent
- IRS-preferred strategy leverages your fixed assets while serving as an excellent asset management tool
- Vehicle for tax savings – study methodology provides data supporting a myriad of additional tax strategies on your multi-family property
  - The Tangible Property Regulations may be applied in renovation scenarios
  - In the case of energy-efficient construction or retrofits, projects may be eligible for 179D Deductions or 45L Tax Credits

WHICH STR PROPERTY ASSETS ARE COMMONLY SEGREGATED?

- Shorter-lived 5-year assets may include:
  - Carpet
  - Wallpaper
  - Window Treatments
  - Crown Molding
  - Counters and Cabinets
  - Decorative Lighting
  - Paddle Fans
  - Fire Extinguishers
- Shorter-lived land improvements may include:
  - Landscaping
  - Paved Parking Lots
  - Sidewalks
  - Pools

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EXAMPLE ACQUIRED SINGLE FAMILY STR PROPERTY (SOUTHEAST)

- 5 bedrooms, 4 bathrooms, pool, patio area
- Depreciable basis: $1,145,000
- Placed-in-Service 5/2022
- Engineers moved 10.4% to 5-year personal property, 9.4% to 15-year land improvements
- First Year Tax Savings: $76,659

EXAMPLE ACQUIRED AND RENOVATED SINGLE FAMILY STR PROPERTY (FLORIDA)

- 8 bedrooms, 7 bathrooms, pool, putting green with artificial turf, fenced-in yard
- Disney-theming throughout
- Depreciable basis: $931,245
- Placed-in-Service 12/2022
- Engineers moved 22.5% to 5-year personal property, 16.7% to 15-year land improvements
- First Year Tax Savings: $134,082

WHERE CAN I LEARN MORE

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SCAN ME

VISIT - https://capstantax.com/cost-segregation-study-explained/

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Capstan Tax Strategies delivers engineering-driven specialty tax solutions that maximize the valuable tax benefits of real estate holdings. By complementing and collaborating with accounting firms, we arm commercial real estate owners, executives, and tenants with the data and analysis required to accelerate depreciation, maximize deductions, and capture tax credits.

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