SUNNY DAZE STAYS

The W-2 Earner's Short-Term Rental Tax Opportunity Playbook

A plain-English decision guide to the seven-day rule, material participation, cost segregation, and the mistakes that can turn a promising strategy into an expensive property.

This is not a DIY tax-return manual. It is the qualification map to read before you shop, so your CPA, agent, lender, and operator can work from the same facts.

THE OPPORTUNITY

The strategy works only when every gate holds

A short-term rental (STR) can sometimes produce a deductible loss that a materially participating owner may treat as nonpassive. That possibility is real. It is also narrower than social media makes it sound.

> **The core idea:** The IRS says an activity is not treated as a rental activity for passive-loss purposes when the average period of customer use is seven days or less.[1] If the activity is then a trade or business in which you materially participate, it may be nonpassive.[1] Your facts, records, and other loss limitations decide the result.

1

Activity classification

Does the year's actual average customer-use period meet an IRS exception to rental-activity treatment?

2

Material participation

Did you satisfy at least one annual test with work that counts and evidence that can support it?

3

Depreciable loss

Did the property create a legitimate tax loss after income, expenses, basis allocation, and depreciation?

4

Usable this year

Do basis, at-risk, excess-business-loss, personal-use, and other rules permit the claimed treatment?

OWNER FIT

The opportunity is powerful only when the owner fits

The best candidate is not simply someone with a large W-2. The strategy asks the same person to be an investor, an operator, and a disciplined recordkeeper.

The tax benefit is the fourth underwriting layer - not the reason to excuse a weak deal.

Promising fit

- High earned income and a proactive CPA
- Capital beyond the down payment
- Time for real operational work
- Comfort with year-to-year uncertainty
- Willingness to reject weak deals

Pause and reassess

- The projected refund funds the purchase
- A manager will perform nearly all work
- Personal use is a primary objective
- The property needs perfect occupancy
- No reserves remain after setup

A five-minute fit check

- [ ] You have a tax professional willing to evaluate the strategy before you buy.
- [ ] You can participate meaningfully without undermining your career or family priorities.
- [ ] You have cash for closing, setup, reserves, and surprises without depending on tax savings.
- [ ] You can keep ordinary, dated records throughout the year.
- [ ] You will underwrite revenue, insurance, regulation, and exit risk before tax benefits.

> **Not a fit yet?** That is useful information. It is cheaper to discover a broken gate before an offer than after closing.

The right first conversation

Start with your CPA and your real operating capacity - not a listing, a cost-segregation estimate, or a promised deduction.

GATE 1 | CLASSIFICATION

The seven-day rule opens the door; it does not finish the analysis

The IRS calculation is based on actual customer use during the tax year: total days in all rental periods divided by the number of rentals. Seven days or less is one exception to rental-activity classification.[1]

Count rental periods
Use the year's completed customer-use periods.

›

Total customer-use days
Do not substitute the listing minimum or a forecast.

›

Compute the average
Total days divided by number of rentals.

> **What this means:** "Listed on Airbnb" is not the test. A two-night minimum is not the test. Your property must be evaluated from the actual periods of customer use and the complete facts for the year.

The classification questions your CPA will need answered

Guest-use facts

- How many rental periods occurred?
- How many total customer-use days?
- Were there owner, family, or below-market stays?
- Were multiple classes of property involved?

Service facts

- What services were provided to guests?
- Who performed them?
- Were services routine or significant?
- How was the activity reported?

Why the exact words matter

The IRS uses *average period of customer use*, not "average nightly stay" as a marketing shortcut. It also lists other exceptions, including certain activities with average use of 30 days or less when significant personal services are provided.[1] Those service rules are fact-sensitive and belong with a qualified tax adviser.

Decision gate

Before relying on STR tax treatment, ask your CPA to confirm the activity classification using your expected booking pattern and revisit it after year-end using actual data.

GATE 2 | PARTICIPATION

Material participation is operational, annual, and documentable

A trade or business activity is not passive when you materially participate. The IRS provides seven tests; meeting any one may qualify.[1] The best test depends on how the property is actually operated.

1. **More than 500 hours**
   You participate for over 500 hours during the year.
2. **Substantially all**
   Your work is substantially all participation by everyone.
3. **More than 100 + no one more**
   You exceed 100 hours and participate at least as much as any other individual.
4. **Significant-participation total**
   Qualifying activities exceed 500 combined hours under the IRS rule.
5. **Five of the prior ten years**
   You materially participated in the activity for any five prior years.
6. **Personal-service history**
   Applies only to the specified personal-service activity context.
7. **Facts and circumstances**
   Regular, continuous, and substantial participation, with additional restrictions.

> **Two traps:** Investor work - such as reviewing reports or monitoring finances without day-to-day involvement - generally does not count. Under the facts-and-circumstances test, management time may not count when someone else is paid to manage or manages more hours than you.[1]

Evidence is part of the strategy

The IRS permits any reasonable method of proof; it does not require contemporaneous daily time sheets if participation can be established another way. Appointment books, calendars, and narrative summaries are examples.[1] "I handled a lot" is not an operating record.

Evidence that helps

- Dated calendars and task logs
- Guest and vendor communications
- Invoices tied to owner work
- Platform and pricing activity
- Notes identifying task + duration

Facts to track

- Your qualifying hours
- Spouse participation, if relevant
- Manager and contractor hours
- Nature of each task
- When operations began

GATE 3 | DEPRECIATION

Cost segregation changes timing, not economics

A cost-segregation study can identify building components that may qualify for shorter recovery periods than the main residential building. It does not turn the entire purchase price into an immediate deduction.

Land

Land is not depreciable.[2] Purchase price must be allocated between land and depreciable property.

Building

Much of a residential rental building generally remains long-life property rather than bonus-eligible property.

Components

A defensible study may identify eligible shorter-life assets and land improvements.

Current rule to verify: IRS guidance issued January 14, 2026 says the law provides permanent 100% additional first-year depreciation for eligible depreciable property acquired after January 19, 2025.[3] Eligibility depends on the asset and the applicable acquisition and placed-in-service rules.

Decision gate

Ask your CPA to model the potential timing benefit only after land allocation, eligible assets, placed-in-service timing, and other loss limits are understood.

COST SEGREGATION DILIGENCE

The provider must be able to defend the study

The IRS publishes a Cost Segregation Audit Techniques Guide for examiners and notes that it is also useful to taxpayers and practitioners preparing studies.[4] Treat the report as evidence, not a sales illustration.

Ask the provider

- Who performs the engineering analysis?
- What records and site information are used?
- How are land and building values supported?
- What audit support is included?
- How are asset lives and classifications documented?

Ask your CPA

- Which assets are actually eligible?
- When is the property placed in service?
- What other loss limits apply?
- How will personal use affect the result?
- What are the future sale implications?

Depreciation can accelerate a deduction. It cannot repair negative cash flow, weak demand, or an uninsurable property.

Cost segregation may

- Identify shorter-life components
- Change the timing of deductions
- Require detailed basis support
- Create implementation questions

Cost segregation does not

- Make land depreciable
- Guarantee bonus eligibility
- Prove material participation
- Override other loss limits

Do not shop on a percentage. The share assigned to shorter-life property depends on the specific building, improvements, records, methodology, and applicable law.

Most failed strategies break at the facts or the records

These are the mistakes to surface before you spend money. If one applies, pause the tax projection and fix the operating assumption.

1. **Buying for the deduction**
   A tax estimate becomes permission to accept a property with thin demand, rising insurance, weak reserves, or a fragile exit.

2. **Treating platform status as qualification**
   Being listed on an STR platform does not prove an average customer-use period of seven days or less.

3. **Confusing ownership with participation**
   Capital, guarantees, and high-level oversight do not automatically satisfy a material-participation test.

4. **Outsourcing the work that was supposed to count**
   A full-service manager may be operationally smart, but it can change the participation facts you planned to rely on.

5. **Reconstructing time after the year closes**
   A vague annual estimate is harder to defend than ordinary dated records created as the work occurs.

6. **Using a marketing estimate as a tax position**
   A cost-segregation estimate is not a completed study, and a study does not determine whether you may use the resulting loss.

> **Red flag phrase:** "Everyone qualifies." No responsible adviser can know that before reviewing ownership, income, participation, personal use, basis, financing, and the property's actual operations.

Your pre-offer reality check

- [ ] My CPA has reviewed the intended ownership and operating structure.
- [ ] My calendar has room for the participation plan I am counting on.
- [ ] The deal works with conservative revenue and a funded reserve.
- [ ] I understand that the year's actual facts can differ from the projection.

Personal use and missing professionals can change the outcome

7. **Using the property like a vacation home without modeling it**
   The IRS treats a dwelling as used as a home when personal use exceeds the greater of 14 days or 10% of days rented at fair rental value. That can limit rental-expense deductions.[5]

8. **Letting family stay below market without tracking it**
   Personal-use definitions can include owner, family, and certain below-market use. Keep the operating calendar honest.

9. **Closing before insurance is real**
   A quote that excludes wind, flood, named-storm deductibles, or STR use is not the expense profile you are buying.

10. **Assuming local permission transfers with the property**
    City rules, permits, zoning, occupancy, parking, and homeowners association restrictions may limit or prohibit the operating plan.

11. **Calling a property "placed in service" too early**
    Your CPA must determine when it was ready and available for its income-producing use; closing alone is not the full operational story.

12. **Waiting until tax season to build the team**
    Entity, financing, participation, personal-use, study timing, and records should be aligned before closing - not reverse-engineered afterward.

The cleanest tax file begins as a clean acquisition file.

Keep together

- Closing and loan documents
- Land/building allocation support
- Renovation and furnishing invoices
- Permit and insurance records
- Cost-segregation study

Track through operations

- Booking and occupancy exports
- Owner and family use
- Participation evidence
- Vendor and guest communications
- Repairs versus improvements

THE INVESTMENT SCREEN

Tax upside cannot rescue a weak property

Underwrite the deal in this order. The tax analysis belongs after the property proves it can operate and survive.

Gate	Question that must be answered	Evidence to obtain
Legal use	Can this exact property operate as planned?	City, county, HOA, permit review
Demand	Who books here, when, and why?	Comparable booked performance
All-in cost	What must be spent before first guest?	Closing, repairs, furnishings, launch
Insurance	Are wind, flood, liability, and STR use covered?	Bindable coverage + deductibles
Operations	Can service quality and owner participation coexist?	Role map, vendors, response plan
Cash flow	Does it survive conservative revenue?	Monthly model + funded reserve
Exit	Who buys it if STR rules or demand change?	Long-term rent + resale scenarios
Tax fit	Do classification and participation align?	CPA review + cost-seg scope

Conservative means specific: Use market evidence that distinguishes booked revenue from asking prices; account for seasonality, platform and management costs, utilities, cleaning gaps, maintenance, taxes, insurance, and capital replacements.

Three numbers a glossy pro forma often hides

Cash required

Down payment + closing + setup + reserves. A deduction is not cash available at closing.

Break-even occupancy

The occupancy needed after variable costs to cover fixed obligations.

Downside carry

How long you can fund the property when bookings miss the base case.

The go/no-go rule

If the property fails the legal-use, insurance, or conservative-cash-flow gate, stop. Do not move the tax estimate higher to make the deal feel safer.

BEFORE THE OFFER

A clean decision path starts before closing

The right sequence protects optionality. It also gives each professional enough time to catch a problem while you can still walk away.

01 **Define your capital and risk boundary**
Set the cash available for acquisition, launch, and reserves. Decide the maximum monthly carry you can absorb without a tax benefit.

02 **Bring in the tax adviser early**
Ask a short-term-rental-savvy Certified Public Accountant (CPA) to review ownership, income, activity classification, participation, personal use, and loss limitations.

03 **Build the operating role before the property**
Decide what you will actually do, what vendors will do, and how those choices affect service and participation.

04 **Search with local operating facts**
Use an agent who understands the market and verify STR legality, insurance, flood and wind exposure, access, parking, and neighborhood constraints.

05 **Underwrite a base case and a downside case**
Use documented comparables, realistic expenses, a launch budget, reserves, and an exit that does not depend on the STR permit.

06 **Scope tax implementation before closing**
Identify records needed for basis, placed-in-service support, cost segregation, and recurring bookkeeping. Your CPA approves the final tax position.

07 **Launch with an evidence system**
Keep operating, booking, personal-use, expense, and participation records from day one.

> **Do not make the offer contingent on a projected refund.** Timing and usability of a loss depend on the year's complete facts and can change.

HOW WE HELP

SunnyDazeStays coordinates the team without replacing licensed advisers

We help Texas-first buyers move from "I heard STRs can reduce taxes" to a property and operating plan that can be evaluated on real facts.

Acquisition coordination

Define the buy box, screen operating constraints, coordinate the search and purchase with a trusted local real-estate agent, or work alongside your preferred agent.

Deal underwriting

Pressure-test demand, operating expenses, launch costs, insurance realities, reserves, and downside scenarios before the tax layer.

Specialist alignment

Help you bring questions and property facts to your CPA, lender, insurance professional, and cost-segregation provider at the right point. If you do not already have an STR-savvy CPA, we can help connect you with one.

Launch readiness

Coordinate furnishing, vendors, guest-ready systems, listing preparation, and the records the owner needs from the first day of operations.

Our lane: Education, acquisition coordination, underwriting, and launch support. **Your CPA's lane:** tax advice, entity and filing decisions, eligibility, calculations, elections, and return positions. **Your agent's lane:** licensed brokerage services and transaction representation.

YOUR NEXT STEP

Bring four facts to a fit conversation

You do not need a property picked out. You need enough clarity to decide whether a search deserves your time, capital, and operating attention.

01 **Capital**
Your approximate acquisition range, cash available for closing and launch, and the reserve you will not compromise.

02 **Timing**
When you want to buy and whether the property must be operating by a particular point in the tax year.

03 **Operating capacity**
Your W-2 schedule, realistic weekly availability, and which responsibilities you are prepared to own.

04 **Market preference**
Your preferred Texas market, or openness to Corpus Christi and coastal Texas, plus any personal-use goals.

> **Helpful, not required:** Bring your CPA's initial view if you already have one. If you do not have an STR-savvy CPA, SunnyDazeStays can help connect you with one. The CPA you choose must approve the tax analysis.

Ready to test the fit before you shop?

Start with a focused conversation about your capital, timeline, participation reality, and Texas market fit.

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Outside Texas? Ask to join the waitlist. SunnyDazeStays is launching Texas-first so local acquisition and operating knowledge stays central.

REFERENCE

Official sources and important limits

Sources

1. **IRS Publication 925 (2025), Passive Activity and At-Risk Rules.** Rental-activity exceptions, material-participation tests, qualifying participation, spouse participation, and proof. https://www.irs.gov/publications/p925
2. **IRS Publication 946 (2025), How To Depreciate Property.** Depreciable property and the rule that land is not depreciable. https://www.irs.gov/publications/p946
3. **U.S. Treasury and IRS, IR-2026-06 (January 14, 2026).** Guidance on the permanent 100% additional first-year depreciation deduction for eligible property acquired after January 19, 2025. IRS guidance
4. **IRS Audit Techniques Guides - Cost Segregation (February 2025).** Official guide for evaluating and preparing cost-segregation studies. IRS Audit Techniques Guides
5. **IRS Publication 527 (2025), Residential Rental Property.** Personal use, dwelling-unit rules, rental income and expenses. https://www.irs.gov/publications/p527

> **Educational use only.** This playbook provides general education and a decision framework. It is not tax, legal, investment, accounting, lending, insurance, or real-estate brokerage advice. Rules change, and your result depends on your complete facts. Consult appropriately licensed professionals before buying, structuring, operating, or claiming any tax position.

Important tax limitations

A loss may be limited or deferred by basis, at-risk, passive-activity, excess-business-loss, personal-use, or other rules. The seven-day exception does not itself create a deduction, prove material participation, or guarantee that a loss can offset wages. Bonus depreciation applies only to qualified property and requires a property-by-property analysis.

Important investment limitations

Projected revenue, occupancy, expenses, appreciation, financing, insurance, and tax savings are uncertain. A purchase can lose money even when a deduction is allowed. Model the property without anticipated tax savings and keep reserves appropriate to the market and financing.

SunnyDazeStays

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