A GUIDE FOR SHORT-TERM RENTAL BUYERS & OWNERS

Cost Segregation for Short-Term Rentals

What it is, how it works, and what to gather before you talk to a CPA

Informational purposes only. This guide does not provide tax, legal, accounting, or financial advice. Consult your CPA or qualified tax advisor and a qualified cost segregation specialist or professional regarding your specific facts, and for the results desired, before acting.

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1. What Cost Segregation Is (and Isn't)

Cost segregation is an engineering-based analysis of a property that separates the purchase price into different categories of assets — each with its own IRS depreciation schedule — instead of depreciating the entire building on one long timeline.

By default, a residential rental building is depreciated over 27.5 years, straight-line: the same deduction every year, whether it's a long-term rental or a fully furnished vacation rental. A cost segregation study re-sorts pieces of that same purchase price — flooring, cabinetry, furniture, appliances, landscaping, the pool, the driveway, fencing, and certain electrical and plumbing components — into shorter IRS recovery classes, commonly 5-year, 7-year, and 15-year property, which depreciate far faster than the building shell itself.

What it isn't: a way to manufacture deductions that don't exist, avoid taxes altogether, or guarantee an audit-proof return. It's a timing strategy — it moves deductions you were already entitled to earlier in your ownership. Your CPA still determines whether, and how, it fits your return.

2. Why It's a Different Conversation for Short-Term Rentals

Furnished and amenity-heavy. A vacation rental purchase typically includes far more of the fast-depreciating categories than a standard rental home — full furniture packages, outdoor living space, pools, decking, landscaping, and higher-end finishes. That means a meaningfully larger share of the purchase price may qualify to be reclassified than it would on an unfurnished long-term rental.

The short-term classification. The IRS generally treats a rental where the average guest stay is 7 days or less (or 30 days or less with substantial services provided) differently than a standard long-term rental for activity-classification purposes. Investors sometimes call this, informally, the "short-term rental loophole."

Material participation. If an owner meets one of the IRS's material participation tests for that activity — for example, more than 100 hours of personal involvement and more than anyone else, or 500+ hours total — the losses generated may be treated as non-passive. In plain terms, that can mean the deductions are eligible to offset active or ordinary income, not just passive rental income — a different result than most residential rental losses produce. This is one of the more nuanced areas of the tax code, and it depends entirely on your specific facts, records, and how you operate the property. It is squarely a conversation for your CPA, not a rule to self-apply.

The upshot. For a buyer weighing a short-term rental purchase, cost segregation tends to get discussed earlier and more seriously than it would for a standard rental home — because a furnished property plus active, hands-on ownership is exactly the scenario this strategy is built around.

3. The Current Bonus Depreciation Picture

Under the One Big Beautiful Bill Act, signed into law in July 2025, 100% bonus depreciation was made a permanent part of the tax code for qualifying property acquired and placed in service after January 19, 2025 — reversing the phase-down that had been reducing bonus depreciation toward zero.

In practical terms: assets a cost segregation study reclassifies into the 5-, 7-, and 15-year categories can often be deducted in full in the year the property is placed in service, rather than spread out over many years. That shift is a large part of why interest in cost segregation for newly purchased short-term rentals has picked up.

Tax law changes. This is general, current-as-of-publication information — not a projection for any specific purchase. Your CPA can confirm exactly what applies to your closing date and situation.

4. How a Cost Segregation Study Works, Step by Step

1. Property & document review — the study firm reviews your closing statement, any renovation or furnishing costs, and property details (square footage, year built, site conditions).
2. Site visit or virtual assessment — a specialist inspects the property, in person or via detailed photos, video, and plans, to identify and measure the components being reclassified.
3. Engineering-based classification — each component is assigned to its correct MACRS recovery class, following the same methodology the IRS describes in its own Cost Segregation Audit Technique Guide.
4. Report delivered to your CPA — you receive a formal study report your CPA uses to prepare or update your depreciation schedule and tax return.
5. Filing — for a property purchased this year, the study is typically incorporated into that year's return. For a property you've owned a while, a "look-back" study can often capture missed depreciation using IRS Form 3115, without amending prior-year returns — your CPA determines and files this.
6. Recordkeeping — you retain the study, any participation logs, and supporting documents for as long as you hold the property, in case of an IRS inquiry.

5. What to Gather Before You Call a Professional

A cost segregation specialist and your CPA can move faster — and give you sharper numbers — the more of this you have ready. As an example, here's what to start pulling together:

1. Your settlement/closing statement, showing the purchase price and closing costs.
2. A land-vs-building starting point — your county property appraiser's assessed land value is a common reference for separating the two.

3. The property's placed-in-service date — the day it was actually ready and available to rent, which isn't always the same as your closing date.
4. Furniture, appliance, decor, and renovation records — receipts, or even a rough list, for what was purchased with the property or added afterward (pool, deck, landscaping, driveway, fencing).
5. Your operating plan — will the property be short-term rental only, a mix of short- and long-term, or include personal-use weeks? This shapes which IRS rules apply.
6. A rough estimate or log of your hours — yours (and your spouse's, if filing jointly) — expected in personally managing the property: bookings, coordinating cleaners and maintenance, guest communication. Material participation is measured, and documented, in hours.
7. Recent property tax records or an appraisal, if you have one.
8. Your CPA or tax advisor's contact information, so the specialist can coordinate directly with them.

None of this has to be perfect or final — it's meant to start the conversation, not finish it.

6. Who's on the Team

- Your CPA or tax advisor — reviews your full tax picture and decides whether, when, and how cost segregation fits your return. Every other step defers to this person.
- A cost segregation specialist or engineering firm — performs the study and delivers the classification report your CPA files from. Firms that focus specifically on short-term rentals, such as SMF Cost Segregation Advisors (smfcostseg.com), are a reasonable starting point for a feasibility estimate.
- Your closing team — your title company and lender can usually provide the settlement statement and appraisal the study needs.
- You, the owner — supply the property's use plan and participation records.

As your agent, my role is to help you find the right property and pull together the closing documents and property details a cost segregation specialist will ask for — not to advise on the tax outcome itself. That part belongs to your CPA.

7. What It Typically Costs — and What It's Designed to Return

Building & Improvement Value*	Approximate Study Cost**	Illustrative First-Year Deduction Range**
$300,000 – $600,000	~$3,000 – $6,000	~15% – 25% of building value
$600,000 – $1,200,000	~$5,000 – $8,000	~15% – 25% of building value
$1,200,000+	~$7,500 – $12,000+	~15% – 25% of building value

**Excluding land value. **General, illustrative ranges only — not a quote, projection, or guarantee for any specific property. Actual results depend on the property, its components, and your tax situation.*

Because a study has a real cost, most specialists suggest it makes the most financial sense when the building and improvements (not counting land) are worth roughly $300,000 or more — below that, the study cost can eat too far into the benefit. Ask any specialist you're considering for a free feasibility estimate before you commit to a full study.

8. What Happens Later: Recapture, Records & Selling

Depreciation recapture. When you eventually sell, the depreciation you claimed is generally "recaptured" — the real property portion is typically taxed at a maximum 25% rate, and the personal-property portion (furniture, appliances, and similar items) is generally taxed at ordinary income rates, up to the amount you depreciated. This doesn't erase the benefit of accelerating the deductions, but it is part of the full picture your CPA should walk you through before you start.

1031 exchanges. Some owners use a 1031 exchange to defer this recapture by rolling proceeds into another investment property — a strategy with its own strict rules and timelines, and again, a CPA and qualified-intermediary conversation, not something to plan around after the fact.

Keep your records. The study report, any participation logs, and receipts should stay with your other tax records for as long as you own the property, and for a few years after.

9. Is This a Conversation Worth Having?

A quick self-check — not a determination, just prompts for the call:

- The property will operate primarily as a short-term rental (average guest stay under 7 days).
- The building and improvements (excluding land) are worth roughly $300,000 or more.
- You plan to hold the property for more than a year or two.
- You, or your spouse, expect to be meaningfully hands-on in running it.

If most of that sounds like your situation, it's worth a call — not to guess, but to a CPA or cost segregation specialist who can look at your actual numbers.

Appendix: Vocabulary

Cost Segregation Study	An engineering-based analysis that reclassifies parts of a property's purchase price into shorter IRS depreciation categories.
MACRS	Modified Accelerated Cost Recovery System — the IRS depreciation system assigning assets to specific recovery periods, commonly 5, 7, 15, or 27.5/39 years for real estate-related property.
Bonus Depreciation	A provision allowing an eligible asset's cost to be deducted in the year it's placed in service, rather than spread across its full recovery period.
Placed-in-Service Date	The date a property is ready and available for its intended use (renting), which starts the depreciation clock — not necessarily the closing date.
Material Participation	IRS tests measuring how actively an owner is involved in an activity (commonly by hours), which affect whether related losses are treated as passive or non-passive.
Passive Activity Loss (PAL) Rules	IRS rules that generally limit rental losses to offsetting only passive income, unless an exception — like material participation in a short-term rental — applies.
Short-Term Rental (STR) Classification	The IRS's treatment of a rental with an average guest stay of 7 days or less (or 30 days or less with substantial services) differently from a standard long-term rental, for activity-classification purposes.
Depreciation Recapture	Tax owed upon sale on the amount of depreciation previously claimed, at rates that differ for real property versus personal-property components.
Look-Back Study	A cost segregation study performed on a property already owned, capturing missed depreciation from prior years, typically filed using IRS Form 3115.
Section 1250 Property	Real property — like the building structure — subject to its own depreciation recapture rules at sale.
1031 Exchange	A transaction that can defer capital gains and depreciation recapture taxes by reinvesting sale proceeds into another qualifying property, under strict IRS timelines.

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ABOUT YOUR LOCAL RESOURCE

Kinsey Haddock

Broker Associate – REALTOR®, Coldwell Banker Realty

Kinsey has spent 15 years covering an unusually wide stretch of the Florida Panhandle — the Forgotten Coast through 30A to Destin — helping out-of-area families and investors buy a beach home as a family base, a short-term rental, or both.

Most of Kinsey's buyers aren't local either. A background managing relationships across distance, time zones, and logistics means remote purchases — video tours, established property management and finance contacts, and steady communication on your schedule — are the normal way of doing business, not an exception.

WHAT KINSEY DOES — AND DOESN'T DO

Kinsey helps you find and acquire the right short-term rental property, and can point you toward the closing documents and property details a cost segregation specialist will need. Kinsey does not provide tax, legal, accounting, or financial advice — that conversation belongs with your CPA or qualified tax advisor and a cost segregation specialist or professional.

Thinking About a Short-Term Rental Purchase?

Let's find the right property first. I can walk you through the Panhandle short-term rental market, help you evaluate a specific listing, and get you the documents your CPA and a cost segregation specialist will want to see.

Book a free 15-minute call

https://tidycal.com/kinseycoldwellbanker/15-minute-meeting

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Ready to talk numbers? SMF Cost Segregation Advisors (smfcostseg.com) specializes in cost segregation studies for short-term rentals and is a reasonable starting point for a feasibility estimate.

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