

Can Your Airbnb Losses Offset Your W-2 Income?

Most rental losses are passive — they can only offset other passive income. But short-term rentals have a special exception. Use this worksheet to see if you qualify.

The IRS treats rentals with an average stay under 7 days as non-passive activities under Reg. 1.469-1T(e)(3)(ii). If you materially participate, losses can offset W-2/1099 income — no Real Estate Professional Status required.

STEP 1

Do You Qualify? (All three must be YES)

Average guest stay under 7 days

Check your booking platform. If your average stay is under 7 days, your rental is automatically classified as a non-passive activity by the IRS.

You materially participate (100+ hours/year)

Guest communication, cleaning coordination, maintenance, pricing adjustments, turnover management, listing optimization. Most active Airbnb hosts clear 100 hours easily.

Hours on this property exceed hours by anyone you hire

You must spend more hours than any single person you pay (not total — per person). If you have a co-host doing 80 hours and you do 101, you qualify.

STEP 2

Estimate Your Offset

LINE	DESCRIPTION	EXAMPLE (\$650K STR)	YOUR PROPERTY
A	W-2 / 1099 income	\$250,000	_____
B	Rental income (annual)	\$65,000	_____
C	Operating expenses	(\$35,000)	_____
D	Standard depreciation (line B basis / 27.5)	(\$21,818)	_____
E	Net rental income before cost seg (B+C+D)	\$8,182	_____
F	Additional Year 1 deduction from cost seg	(\$130,000)	_____
G	Net rental loss after cost seg (E+F)	(\$121,818)	_____
H	Taxable W-2 income after offset (A+G)	\$128,182	_____
I	Estimated tax savings at 37% — (A-H) x 0.37	\$45,073	_____

WHAT THIS MEANS

The bottom line on your Year 1 savings

In this example, the STR owner reduced their taxable income by **\$121,818 in Year 1** — saving approximately **\$45,073 in federal taxes**. The cost segregation study cost **\$795**. That's a **57x return**.

IMPORTANT NOTES

What you need to know before filing

- 1 This only works for STRs (avg stay < 7 days). Long-term rentals are passive unless you have Real Estate Professional Status.
- 2 Material participation is per-property. You need 100+ hours on each STR you want to use this strategy for.
- 3 Cost segregation accelerates depreciation timing — total lifetime depreciation is unchanged. When you sell, depreciation recapture applies (Section 1250).
- 4 These are estimated tax savings. Actual results depend on your specific tax situation, state taxes, and deductions.
- 5 100% bonus depreciation is permanent under the One Big Beautiful Bill Act (2025). No more sunset dates.

About Cost Seg Smart

Engineering-based cost segregation studies delivered in under 1 hour. Starting at \$795. CPA-Ready Guarantee: if your CPA needs changes, we revise at no charge. IRS Audit Techniques Guide methodology, RSMMeans 2024 cost data, 35+ page reports with component-level depreciation schedules.

See your exact depreciation breakdown in 60 seconds

costsegsmart.com — no email or signup required

Free Estimate