FOR FINANCIAL ADVISORS · TEAM ARONHEIM

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CROSSCOUNTRY MORTGAGE™

The vacation home that can put *year-one dollars back* into your client's plan

How a short-term-rental purchase plus a cost segregation study can turn a large first-year tax deduction into cash your client can apply to the plan you've built together, and what has to be true for it to work.

Real estate doesn't have to compete with the portfolio. We would never suggest putting everything in real estate. For the right high-income W-2 client, a *small, deliberate* allocation to a vacation home they can short-term rent may produce a sizable first-year tax deduction. Those tax savings can go toward the strategy you have already built with your client.

1 · PURCHASE
$1.0M
Vacation home purchase price (~$800k building)

›

2 · COST SEG
$208k
Building basis reclassified to 5- & 15-year property

›

3 · YEAR-1 DEDUCTION
$214,957
100% bonus + year-1 straight-line

›

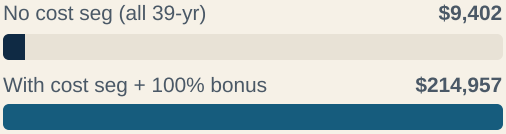
4 · BACK IN YEAR ONE
≈ $75,000
Est. federal tax savings (35% bracket) to apply to the client's plan

The illustrative math

Item	Assumption	Amount
PURCHASE		
Purchase price		$1,000,000
Land (not depreciable)	~20%	($200,000)
Depreciable building basis		**$800,000**
TYPICAL COST SEGREGATION SPLIT (OF BUILDING BASIS)		
5-yr property (furnishings, appliances, finishes)	17%	$136,000
15-yr land improvements (paving, landscaping, decks)	9%	$72,000
39-year building structure	74%	$592,000
YEAR-1 DEPRECIATION		
100% bonus on 5- & 15-yr property	26% reclassed	$208,000
Straight-line, 39-yr portion	July, mid-month	$6,957
Total year-1 depreciation		**$214,957**
Est. federal tax savings	**× 35%**	**$75,235**

Illustrative only, 2026 federal rules. Assumes the property was acquired after Jan 19, 2025 (a written binding contract signed on or before that date doesn't qualify for 100% bonus) and placed in service in July; the client qualifies under the STR rules on page 2; and the full deduction offsets income taxed at 35%. A deduction this large can push some income into lower brackets. For 2026, §461(l) caps net business losses used against wages at $256,000 single / $512,000 joint (Rev. Proc. 2025-32); any excess carries forward. Basis uses price only; certain closing costs are generally added to basis, and financing doesn't reduce it. Rental income and expenses are ignored. Real operating results, the study's actual findings, state taxes (excluded here) and individual facts will change the numbers. An STR averaging stays of 30 days or less is generally depreciated as 39-year nonresidential property, not 27.5-year residential.

YEAR-1 DEDUCTION: WITH VS. WITHOUT A STUDY



Federal tax savings: about $3,291 without a study vs. $75,235 with one (35%).

WHAT THE ADVISOR SEES

≈ $75,000

Back in year one (est. federal), to apply to the strategy you've already built with your client: rebalance, fund goals, or invest per their plan. How it's used is your call.

Also common: investors growing a real estate portfolio often put the year-one tax savings toward the down payment on their next property.

Why it works: Since the 2025 tax law (the "One Big Beautiful Bill"), **100% bonus depreciation is permanent** for qualified property acquired after Jan. 19, 2025 (IRS Notice 2026-11). "Acquired" is generally the binding-contract date, not closing. A study typically costs about **$3,000–$10,000**.

Illustrative example only, not tax, legal or investment advice. Team Aronheim and CrossCountry Mortgage do not provide tax advice. Clients should consult a CPA/tax advisor and their financial advisor. See criteria, downsides and full disclosures on page 2.

Not magic: *what has to be true*, and the trade-offs

This works only for clients who meet specific rules and are willing to do the work. Here is the honest version.

The criteria

- ✓ **Short-term rental test.** The average guest stay is **7 days or less** (or 30 days or less with *significant* personal services, a hotel-like level). Then it isn't a "rental activity" under the passive-loss rules. This is often called the STR loophole.
- ✓ **Material participation.** The owner must materially participate, for example **100+ hours and more than anyone else** (including the property manager and cleaners), or **500+ hours**. Spouses' hours combine; investor-type tasks don't count. Keep a **contemporaneous hours log**.
- ✓ **Placed in service this tax year.** The home must be ready and available to rent in the year the deduction is claimed, not just purchased.
- ✓ **Limited personal use.** Personal use above the greater of **14 days or 10% of rental days** changes the tax treatment.
- ✓ **A qualified study.** The cost segregation study should be done by a qualified engineering or cost-seg firm.
- ✓ **A CPA on the team.** The CPA confirms eligibility, timing, loss limits and state treatment before the client buys.

The downsides

- ! **Depreciation recapture on sale.** 5- and 15-year property is recaptured under **§1245 at ordinary income rates**. The building portion is "unrecaptured §1250" gain, taxed at **up to 25%**. Depreciation lowers basis, so gain on sale is larger.
- ! **Mostly a timing benefit.** The deduction is pulled forward, not created out of thin air. The value comes from using the money now.
- ! **Audit-sensitive.** Material participation is a common IRS focus. Weak hours logs lose cases.
- ! **Volatile income.** STR revenue swings with seasons, markets and local regulations.
- ! **Real time commitment.** Hitting the hours tests means real involvement, not a fully hands-off investment.
- ! **If it doesn't qualify,** losses are passive and generally offset only passive income (any excess carries forward).
- ! **State conformity varies.** Many states (e.g., CA) don't follow federal bonus depreciation.
- ! **NIIT is separate.** The loss reduces income tax but generally doesn't reduce the 3.8% NIIT on other investment income.

MANAGING RECAPTURE: DEFERRABLE, AND POTENTIALLY AVOIDABLE, WITH PLANNING

1. **Hold until death.** Heirs generally receive a **stepped-up basis** (§1014), and the built-up recapture is eliminated.
2. **1031 exchange.** Exchanging into like-kind investment real estate **defers** recapture. This can be repeated, potentially until death and step-up. Replacement property must carry enough real property value to avoid triggering §1245 recapture.
3. **Offset it.** Recapture in the year of sale can be offset by other passive losses or suspended losses that are released on the sale.

What doesn't work: an **installment sale does not defer recapture**, because it is taxed in the year of sale even if payments come later. **Converting the home to personal use** only delays recapture until a future sale. Work with a CPA to map the exit before the purchase.

Where it fits

- ✓ High-income W-2 households with strong liquidity after down payment and reserves.
- ✓ Clients who want a vacation home anyway and will truly self-manage at the required level.
- ✓ A **small slice** of a diversified plan, sized so a bad rental year doesn't disrupt the portfolio.

Where it doesn't

- ! Clients who want a hands-off investment or plan to use the home heavily themselves.
- ! Anyone stretching to buy just for the deduction. The property has to make sense on its own.
- ! Clients who would need the money back soon or can't absorb vacancy or repairs.

Partner with us so your clients' real estate moves fit the plan

We specialize in resort, second-home, short-term-rental and DSCR lending nationwide. When a client is thinking about a vacation property, we coordinate with you and their CPA, and with cost-seg and 1031 specialists when needed, so the purchase supports the plan. Jeffrey owns second homes and invests in real estate himself.

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