



FOR SHORT-TERM RENTAL INVESTORS GUIDE

To maximize cost seg deductions.

Buy a short-term rental with good bones. Spend on furniture, appliances, lighting, removable flooring, and outdoor amenities.

Be careful with windows, framing, plumbing, drywall, and full gut renovations.

This guide shows which dollars may create a faster deduction, which ones improve the guest experience, and which ones stay tied up in the building for decades.



THE IDEA

Different parts of a home breakdown at different rates when used as a rental.

For tax purposes, a property is made up of many different pieces. The refrigerator is likely to be replaced faster than the roof. The sofa is likely to breakdown before windows. The patio is not treated like the foundation. Each of them have a defined useful life, you are likely to replace a vanity light before doing anything with the foundation.



A **cost segregation study** separates those pieces and identifies how quickly each one can be depreciated. Two renovations can cost the same and look equally beautiful, yet produce very different tax results.

THE PHRASE WE RETIRE

The full qualifying cost may be deductible in the first yea. A deduction lowers taxable income, not tax dollar-for-dollar.

HOW THE PIECES ARE RECOVERED: 5 - 15YR CATEGORIES ARE 100% BONUS DEDUCTION IN Y1

5-year Removable personal property. FAST · YEAR ONE	7-year Furniture & décor fixtures. FAST · YEAR ONE	15-year Land improvements, outside the walls. FAST · YEAR ONE	Expense now Under the cap, deducted this year. THIS YEAR	27.5–39 yr The structure. Recovers over decades. SLOW
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The fast buckets may qualify for 100% bonus depreciation on eligible qualifying property acquired after Jan 19, 2025. Not every renovation cost automatically qualifies, your CPA confirms against your numbers.

Buy the ugly house in the best neighborhood with good bones.

The best opportunity is often a property with sound bones and dated finishes. Let the expensive structural work already be done, then put your budget into the pieces guests notice.



LOOK FOR

A house where the roof, windows, foundation, plumbing, electrical, and basic layout already work, under tired, easy-to-change finishes.

Spend on what guests notice

- | | |
|--------------------------|-----------------------|
| Better beds & furniture | Window treatments |
| Better appliances | Removable flooring |
| Better lighting | Outdoor living |
| Hot tub, sauna, fire pit | Styling & photography |

Be cautious when it needs

- | | |
|-----------------|---------------------|
| New windows | Structural walls |
| A new roof | Major plumbing |
| Foundation work | Extensive built-ins |

These may be necessary, but they do not meet 100% bonus depreciation for Y1 and instead are depreciated evenly over 39+ years in short term rental.

Spend \$300K on a \$1M Vacation Home

You earn \$1,000,000 and would owe about \$300,000 in federal tax. You buy a \$1,000,000 short-term rental and put \$300,000 in, the down payment plus furnishings. Here’s how that investment changes the bill. Illustrative; your CPA confirms against your numbers.

THE INCOME \$1,000,000 ≈ \$300,000 owed in federal tax at a 37% top rate.	THE PURCHASE \$1,000,000 A short-term rental with good bones.	THE CASH YOU DEPLOY \$300,000 Down payment + furnishings, roughly the tax you’d have owed.
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THE MOVE

Buy a beach cottage.

Good bones, dated finishes, and room for amenities.

\$300,000

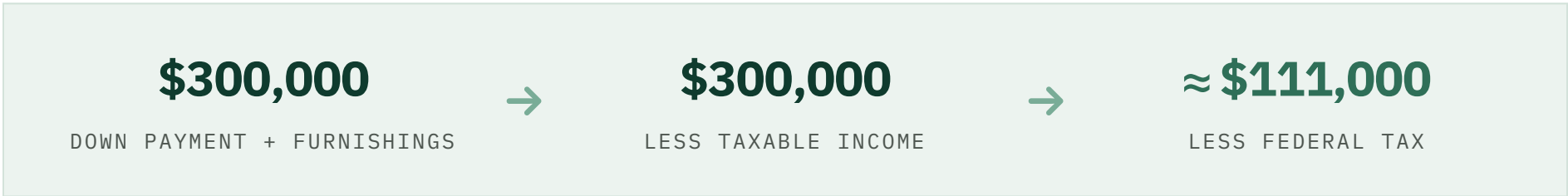
DOWN PAYMENT + FURNISHINGS

Improvements, furnishings, and equipment you still own after the deduction is taken.

Put \$300,000 into the home and you may **reduce your taxable income by up to \$300,000.**

At a 37% federal rate, that could lower your federal tax by about **\$111,000**, turning the ≈\$300,000 you’d have owed into roughly **\$189,000.**

You still own the \$300,000 of improvements, furnishings, and equipment. The tax savings effectively funds about **\$111,000** of that investment.



Only qualifying costs generate the first-year deduction. Actual savings depend on your tax rate, your ability to use the deduction, and your complete tax profile. A deduction reduces taxable income, it is not a dollar-for-dollar refund.

The same cash can generate different tax deductions depending on how it is deployed.

Say the cash budget is \$300K. Both options buy the same \$1M house and spend the same \$300K, the only difference is where it goes. Illustrative; your CPA confirms.

1 PARK IT IN EQUITY	
20% down	
Down payment (20%)	\$200,000
Decorate & finish (fast)	\$100,000
Total cash	\$300,000
YEAR-ONE DEDUCTION	
Building cost seg	\$255,000
Decorating (fast buckets)	\$100,000
Extra \$150K → equity	\$0
Total deduction	≈ \$355,000

2 REDEPLOY INTO THE PROPERTY	
5% down	
Down payment (5%)	\$50,000
Remodel + decorate	\$250,000
Total cash	\$300,000
YEAR-ONE DEDUCTION	
Building cost seg	\$255,000
Remodel + decorate (fast)	\$225,000
+ Disposition on tear-out	\$30,000
Total deduction	≈ \$510,000
Only the remodel earns disposition. Tearing out old cabinet fronts and finishes lets you write off their remaining basis, a deduction Option 1 never gets.	
Then reinvest the return. Put the tax savings toward your principal, pay down the loan you kept small at 5% down, and keep compounding equity without burying cash at closing.	

YEAR-ONE DEDUCTION • SAME \$300K OUT OF POCKET		OPTION 2 → ~\$155K MORE
20% down		\$355K
5% down		\$510K

A deduction lowers taxable income, not tax dollar-for-dollar. The extra equity a bigger down payment buys is not “nothing”, it lowers debt, interest, and risk, but it does not add to the depreciable basis. Disposition = writing off the remaining basis of components you remove, on top of depreciating the new ones. Figures illustrative.

100% BONUS DEPRECIATION IN Y1 = DEDUCTION TAKEN RIGHT AWAY

These categories return 100% bonus depreciation, so invest in the high-quality versions.

Think Bosch over Whirlpool, or say yes to the pool and yard remodel. Each of these may have its full qualifying cost deducted in the first year, the movable, removable, and land-improvement pieces guests see, touch, and use.

 Appliances 5-YR	 Range & oven 5-YR	 Countertop appliances 5-YR	 Recessed lighting 5-YR	 Decorative lighting 5-YR
 Home theater 5-YR	 Smart thermostat 5-YR	 Smart locks 5-YR	 Smart speakers 5-YR	 LVP & floating floor 5-YR
 Blinds & shades 5-YR	 Showerheads 5-YR	 Towel bars & hooks 5-YR	 Vanity tops 5-YR	 Furniture 7-YR
 Rugs & décor 7-YR	 Pool & spa 15-YR	 Decks & patios 15-YR	 Fencing & walls 15-YR	 Landscaping 15-YR

- 5-YEAR • REMOVABLE PERSONAL PROPERTY
- 7-YEAR • FURNITURE & DÉCOR
- 15-YEAR • LAND IMPROVEMENTS

May qualify for 100% bonus depreciation on eligible qualifying property acquired and placed in service after Jan 19, 2025. Treatment depends on the asset and its documentation.

These are recovered slowly, over 27.5 to 39 years.

The shell of the building, necessary, often expensive, but not eligible for year-one bonus. When these are already sound, you inherit the slow part and spend your budget on the fast part.

 Foundation 27.5–39 YR	 Framing & load-bearing walls 27.5–39 YR	 Roof 27.5–39 YR	 Exterior walls & siding 27.5–39 YR	 Windows & exterior doors 27.5–39 YR
 Insulation & sheathing 27.5–39 YR	 Permanent tile & surrounds 27.5–39 YR	 Built-in cabinet boxes 27.5–39 YR	 Outlets, switches & wiring 27.5–39 YR	 Recessed & primary lighting 27.5–39 YR

0%

YEAR-ONE BONUS

Buy the building where this work is already done.

A property with a sound roof, foundation, framing, windows, and systems lets your renovation budget go to the fast buckets, instead of into the slowest-recovering part of the property.

Keep the boxes. Replace the fronts.

If the cabinet boxes are solid, you may not need to replace the entire kitchen. A good designer can create custom doors, drawer fronts, hardware, lighting, and finishes that completely change the room, the look of a new kitchen without paying to tear out and rebuild everything behind it. This can also produce a better tax result.



REFRESH THE KITCHEN

Spend primarily on the parts people see and use.

GUT THE KITCHEN

Spend heavily on permanent construction that may take decades to depreciate.

100% bonus deduction

POTENTIALLY ELIGIBLE · 100% FIRST-YEAR

Custom replacement cabinet doors*	Countertop microwave
Custom replacement drawer fronts*	Wine refrigerator
Refrigerator	Beverage refrigerator
Freezer	Ice maker
Range	Freestanding island or cart
Cooktop	Freestanding pantry / shelving
Wall oven	Bar stools
Dishwasher	Dining table & chairs
Built-in microwave	Decorative pendant lighting**
	Window shades or blinds
	Countertop appliances

USUALLY NOT ELIGIBLE · 27.5-YEAR

Cabinet boxes & frames	Water-supply piping
Complete built-in cabinet systems	Drain & waste piping
Built-in pantry cabinets	Gas piping
Permanently attached islands	Electrical wiring
Stone countertops	Outlets & switches
Tile or built-in countertops	Recessed / primary lighting
Backsplash tile	Drywall & plaster
Kitchen sink	Flooring & subflooring
Faucet & plumbing fixtures	Walls, framing & beams
Garbage disposal	Ductwork & building systems

Spend where it changes the room most.

A full cabinet replacement can consume a large part of the budget while producing relatively slow tax recovery. Keeping sound cabinet boxes and investing in custom fronts, appliances, hardware, furnishings, and design can give you the finished result with less demolition, and more of the spend potentially recovered in the first year.

*Cabinet doors and drawer fronts require separate identification and support; treatment depends on how they are designed, purchased, installed, and documented. If treated as an integral part of the permanent cabinetry, they may follow the building’s longer recovery period. **Decorative lighting may qualify for faster recovery when it is supplemental and not the room’s primary source of illumination. Qualified short-life property acquired and placed in service after January 19, 2025 may be eligible for 100% additional first-year depreciation.

The bathroom & the living spaces.

Small removable fixtures add up fast across a portfolio. In living rooms and bedrooms, “make it your own” and “get it back” are the same move.

The bathroom

100% BONUS • DEDUCTED YEAR ONE

 Vanity top · 5	 Faucet trim · 5	 Showerhead · 5	 Shower valve · 5	 Vanity light · 5	 Towel bar · 5	 Shower rod · 5	 Exhaust fan · 5
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STRAIGHT-LINE • 27.5-39 YR

 Tiled surrounds · 27+	 Framing · 27+	 Drywall · 27+
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Living rooms & bedrooms

100% BONUS OR EXPENSED • YEAR ONE

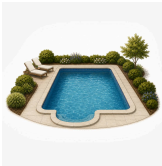
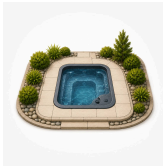
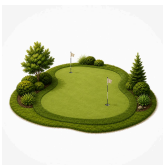
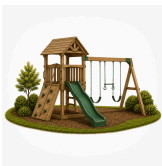
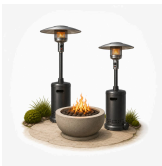
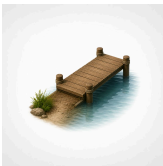
 LVP / floating · 5	 Ceiling fan · 5	 TV & A/V · 5	 Furniture · exp	 Rugs & décor · exp	 Smart thermostat · 5	 Smart lock · 5	 Smart speaker · 5
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STRAIGHT-LINE • 27.5-39 YR

 Drywall · 27+	 Framing · 27+	 Recessed lighting · 27+
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Outside the home investments skew 100%

It pays to make the outside beautiful and amenity rich.

 In-ground pool & spa 15-YR	 Hot tub / spa 15-YR	 Decks & patios 15-YR	 Fencing & walls 15-YR
 Walkways & pavers 15-YR	 Landscaping 15-YR	 Path & site lighting 15-YR	 Irrigation 15-YR
 Fire pit 15-YR	 Pergola 15-YR	 Sport court 15-YR	 Putting green 15-YR
 Playset & swing set 15-YR	 Covered pavilion 15-YR	 Barrel sauna 15-YR	 Outdoor kitchen 15-YR
 Patio heaters 15-YR	 Dog run 15-YR	 Buried propane tank 15-YR	 Dock 15-YR

Removable pool/spa equipment, pumps, filters, heaters, and freestanding, plug-in hot tubs drop to the **5-year** bucket. Foundation, roof, exterior walls, and the main HVAC & electrical stay in the structure.

Pick the installation, not just the material.

Two floors can look almost identical but be treated very differently. The same is true of a tub. What decides the tax life is how it attaches to the building.

 Floating / removable 100% • YEAR 1 Lifts out without damaging the building. Personal property, may be recovered fast.	 Glued, nailed, mortared NO BONUS Permanent structural finish, decades to recover.
 Freestanding, plug-in tub 100% • YEAR 1 Removable and self-contained. Personal property.	 Built-in, tiled-in spa 100% • YEAR 1 A 15-year land improvement, still fast, just a different bucket.

BEFORE YOU CHOOSE, ASK

- 1. How will it be installed?
- 2. Can it be removed without damaging the building?
- 3. Does the invoice or spec sheet describe the installation?
- 4. Is the more permanent option actually necessary in this room?

Use permanent tile where the property needs it, showers, entries. Don’t default to it throughout the whole house.

Design is what makes the home bookable.

Guests notice how the home looks, feels, and functions, the sofa, the lighting, the window treatments, the appliances, the bedding, even the plates at breakfast. This is where spending more can make sense: many of the items that make a rental feel finished are furniture, equipment, or other short-life property that **may be recovered in the first year**. The goal is not to spend as little as possible, it is to spend more on the parts guests see, touch, use, and remember.

Buy the better appliances The range, refrigerator, coffee maker, and blender that make a kitchen feel premium. You don’t have to default to the cheapest option just because it’s a rental.	Make everyday objects feel special Plates, glasses, flatware, cookware, and linens are part of the stay. Buy the beautiful set, small purchases that elevate the whole experience.	Finish the windows Custom shades, blinds, and drapery complete a room and improve privacy, sleep, and photography. Decorative treatments may qualify as short-life property.	Add character without rebuilding Art, mirrors, rugs, lamps, removable wall coverings, and decorative fixtures give the property a point of view, without moving walls or replacing structure.	Put premium where it shows The sofa, dining table, mattresses, bedding, lighting, and outdoor furniture guests see before they arrive. The details that make a listing worth booking.
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Be selective with permanent work

New walls, relocated plumbing, rebuilt stairs, and built-in railings generally stay part of the building, handrails, for example, are usually 27.5-year property.

The tax code often rewards the same things guests notice.

Furniture, appliances, window treatments, decorative lighting, and other movable pieces can make the property more desirable while also qualifying for faster tax recovery. The nicer sofa may make more sense than moving a wall. The custom blinds may make more sense than rebuilding the window. The better glassware, premium linens, and espresso machine may make more sense than the cheapest rental-grade version.

Good design is not an extra. It is part of the investment.



THE LAKE HOUSE • AN UNLEVERED HOME

Treatment depends on the asset, purchase date, documentation, business use, applicable elections, and the taxpayer’s ability to use the deduction. Qualified short-life property acquired and placed in service after January 19, 2025 may be eligible for a full first-year deduction; lower-cost items may qualify for immediate expensing under the applicable de minimis safe harbor. Decorative lighting is generally short-life property only when it is supplemental rather than the room’s primary source of illumination.

What to inherit, and what eats the budget.

The best property is not necessarily the one that needs the most work. It is often the one where the expensive structural work is already done and the visible experience still has room to improve.

What you want to inherit

- Sound roof and windows
- Working plumbing and electrical
- A solid foundation
- Cabinet boxes worth preserving
- A usable floor plan
- Low land value relative to price
- Dated finishes that are easy to change
- Space for outdoor amenities

What can consume the budget

- Window replacement
- Foundation or drainage problems
- Roof replacement
- Major electrical service work
- Plumbing relocation
- Structural walls, drywall & framing
- Full replacement of built-in cabinetry
- Permanent tile throughout the property

Consider what is required to claim.

This strategy only works if you manage in the first year, which is only 2hrs per week to qualify.

01 • Clear year one once.

An **average guest stay of 7 days or fewer** can take the activity out of the default “rental” bucket, so losses may offset other income. This customer-use test is separate from the real-estate-professional rules.

03 • Keep the paper trail.

A record of who stayed, when, cleaners between guests, and invoices. No Airbnb required. Watch the 14-day / 10% personal-use limit.

05 • Buy the real study.

Engineering-based, documented from floor plans. Skip the cheap “AI cost seg” with no trail and the rigid “every kitchen is 12%” macro. The documentation is the strategy.

02 • Materially participate.

The IRS gives **seven material-participation tests**. Under some, ~100 hours (and more than anyone else) can qualify; others require 500 hours or a facts-and-circumstances showing. There is no universal “two hours a week.” A spouse can be the one who qualifies.

04 • Prove your hours.

A contemporaneous daily log is **not strictly required**. Participation may be shown by any reasonable means, calendars, appointment books, or narrative summaries. A clear, timely record is still your best defense.

06 • Know the back end.

Part is recaptured on sale (up to 25% on real property). A §1031 exchange defers it by rolling into the next property.

WORK WITH US

We help you get more from every dollar you put into your property.

By looking closely at every part of the home, we show you what may qualify for faster tax deductions and where your investment can have the biggest impact.

WHAT WE DO

Buy where the bones are good. Spend on the experience.

-  We break your property down component by component.
-  We show you how each item is treated for tax purposes.
-  We estimate what you may be able to deduct in the first year.
-  You decide where to spend, appliances, furniture, finishes, lighting, or guest amenities.

Often, the same investments that make a rental more desirable can also create the strongest tax benefit.

Get started at www.unlevered.io/hello →

Educational field guide, not tax advice, every property is its own fact pattern. The buckets reflect how a quality engineering-based cost segregation study generally classifies components under current law. Actual allocation, and whether the customer-use and material-participation tests apply to your household, must be confirmed by a credentialed CPA against your numbers. Grounded in §168(k) (100% bonus depreciation for eligible qualifying property acquired after Jan 19, 2025), the average-stay exception to rental treatment under §469, and §1031.

DON'T PAY THE TAX BILL, UNLEVER IT INTO YOUR DREAM HOME.