


MEET NANCY & WALT

Roth conversion, timed up with a look-back study on a 2021 rental.

\$351K deduction · \$1.8M cottage · federal tax \$89K → \$0

They inherited a Martha's Vineyard cottage and hosted for five years without a cost segregation study. A look-back study that catches up missed depreciation unlocks a \$351K deduction that erases the \$89K federal tax on the conversion, triggering a refund that is reinvested into a remodel.



THE BASIS

Her basis is the 2021 value.

VALUE PLACED IN SERVICE, 2021

\$1.8M

She bought out her siblings for an undisclosed amount and started hosting in 2021. Her cost basis is the property's value when she took full ownership, about \$1.8M.

THE BIGGER GOAL

Move the IRA into a Roth, but a conversion is taxed.

THE CONVERSION TAX

~\$106K

They wanted the IRA in a Roth, but the conversion tax, about \$106K, kept stopping them. Their advisor saw the fix in the rental and a look-back.

WHAT THEY MISSED

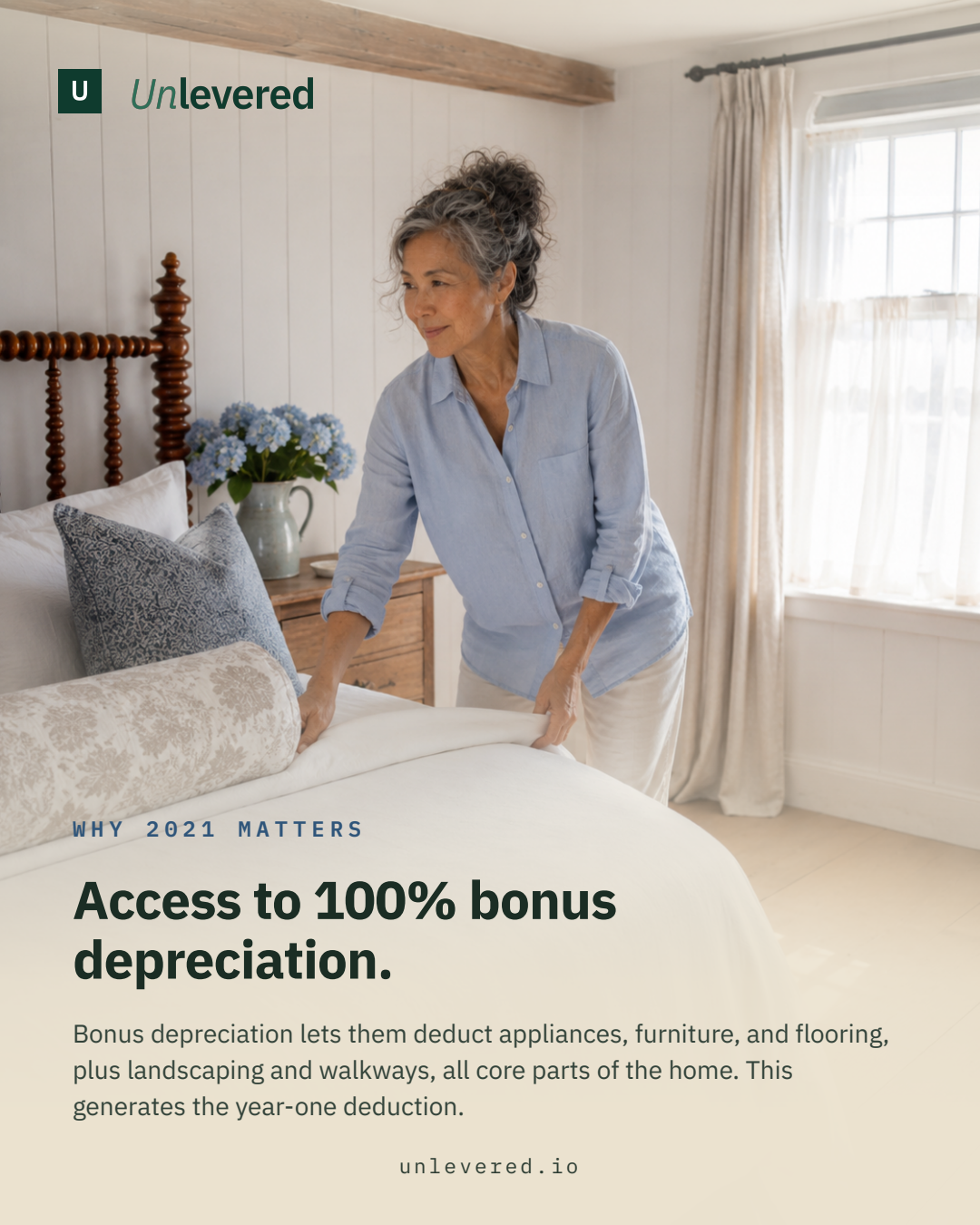
Five years of hosting. No depreciation, no cost seg.

CLAIMED IN ONE FILING

~\$351K

Five years of depreciation went unclaimed. An Unlevered look-back study lets them claim it all at once, at \$351K. \$270K allocated to 100% bonus depreciation rules in 2021.

*Form 3115 / IRC §481(a) is the IRS method for correcting a missed depreciation deduction.



WHY 2021 MATTERS

Access to 100% bonus depreciation.

Bonus depreciation lets them deduct appliances, furniture, and flooring, plus landscaping and walkways, all core parts of the home. This generates the year-one deduction.



THE MOVE

The rental loss offsets the Roth conversion.

Walt runs the short-term rental as his retirement second act. That active loss offsets ordinary income, including a Roth conversion, up to the \$512K joint-filer cap. The \$351K fits.

*Average stay 7 days or fewer plus material participation makes a short-term rental non-passive (Treas. Reg. §1.469-1T(e)(3)); §461(l) caps joint business losses at \$512K for 2026.

THE BILL, WIPED OUT

Owed about \$106K. The federal \$89K, wiped out.

FEDERAL ERASED · ~\$18K STATE REMAINS

~\$89K → \$0

Owed about \$106K on the conversion. An Unlevered look-back erased the \$89K federal tax with 100% bonus. About \$18K Massachusetts remains, since the state does not follow bonus.

*Approximate TY2026, married filing jointly, about \$130K base taxable income; Rev. Proc. 2025-32 brackets plus Massachusetts (5% flat). A deduction reduces taxable income, not cash.

WHAT IT PAYS FOR

The tax return funded the remodel.

Remodel, funded by the tax saved	\$89K
Added to the cottage basis	+\$89K
New short-life deduction, 100% bonus	~\$53K
Tax that deduction saves them	~\$9K

They put the \$89K they saved into the remodel, which adds to the cottage basis. Cost seg reclassifies about \$53K of the new work to short-life, fully bonus. That deduction is not cash, but at their rate it saves about \$9K more in tax.

THE PAYOFF

A tax bill, turned into a family legacy and a remodeled home.

30%+ Booking Revenue

They turned a Roth conversion tax bill into an improved cottage: about 30% more booking revenue, a space that now works for the grandkids, and a Roth they draw on tax-free for years.



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How much applies depends on your marginal rate and the annual deduction caps. Educational only, not tax advice.