TAX STRATEGY · REVIEW CONTROL

# The STR Tax Mistakes Checklist

A year-end controls review for short-term-rental owners — run it before you file. It doesn't decide your taxes; it surfaces unresolved classification, reporting, depreciation, participation, and documentation issues, and points you to the guide that explains each one.

> ***Classification before optimization; documentation before deduction.***

**How to use:** Check each item. Any box you can't confidently check — or any alert on page 3 — is something to resolve, or take to your tax professional, before you rely on the position.

## 1 CLASSIFY

SEE PRINCIPLE 44

*Did I settle which rules apply before optimizing?*

- ☐ I've confirmed the **§469 rental vs. nonrental** treatment for this activity on its own terms (e.g., the average-stay exception) — as a determination in its own right.
- ☐ I've kept that §469 classification **separate from the Schedule E vs. C** reporting question — they are not the same determination.
- ☐ Where there was any personal use, I've reviewed the **personal-use rules (§280A)** rather than assuming they don't apply.

## 2 PARTICIPATE

SEE PRINCIPLE 45

*If participation matters to my position, did I establish it correctly?*

- ☐ Where material participation is relevant, I've identified **which of the seven tests my actual facts may support** — from my facts, not because a test "sounds easiest."
- ☐ I have **appropriate evidence of the work performed and the approximate time involved.** (A contemporaneous log is a Builders Finance–recommended control, not a legally required form; participation may be established by any reasonable means.)
- ☐ I've **included spouse participation where applicable (§469(h)(5))** while preserving who actually performed the work.
- ☐ I've **identified investor-capacity work, non-customary-owner work, Test-7 management issues, and other people's participation for review** where the relevant test requires it — rather than assuming they simply count or simply don't.

### NOTES / ITEMS TO RESOLVE BEFORE FILING

## ③ REPORT

SEE PRINCIPLE 46

*Did I reconcile, not copy?*

- ☐ I've **reconciled** any Form 1099-K received to the underlying records — I did **not** assume the reported gross amount was automatically the amount to put on the return.
- ☐ If a 1099-K looks **wrong**, I **investigated / sought a correction** rather than reconciling around an inaccurate form.
- ☐ I've separately worked the **Schedule E vs. Schedule C reporting analysis** and the **§1402 self-employment-tax analysis** — related facts may inform both, but they are **separate determinations**.

## ④ DEPRECIATE

SEE PRINCIPLE 47

*Did I treat depreciation as timing, with consequences?*

- ☐ **Land is excluded** from depreciable basis — I'm depreciating the building, not the land.
- ☐ The **recovery-period classification** is actually established on its own terms — **not borrowed from §469's 7-/30-day tests**, which do not set the §168 recovery period.
- ☐ If I **accelerated** depreciation (e.g., cost segregation), I've evaluated the **current-year usability** of the resulting loss, the **adjusted-basis effect**, and the **future disposition consequences** — together, not the deduction size alone.

## ⑤ DOCUMENT

SEE PRINCIPLE 48

*Does each position have the support it needs?*

- ☐ Each material tax position has the **kind of factual support it requires** — documentation supports the factual position; it does not create legal entitlement.
- ☐ **Heightened-substantiation** items (where the statute requires more than ordinary records) are handled to that higher standard.
- ☐ **Basis and depreciation records are retained through disposition and the applicable record-retention period**, because those records may be needed to determine adjusted basis, depreciation history, and gain or loss when the property is disposed of.

### NOTES / ITEMS TO RESOLVE BEFORE FILING

# Stop & Review Before Filing

*If any statement below is true, resolve it before relying on the related position.*

1. **I can't explain why this activity belongs on Schedule E or Schedule C.**
   **Review: Schedule E vs. Schedule C · P50**

2. **My 1099-K or other information return doesn't reconcile to the underlying records.**
   **Review: How STR Income Is Reported / 1099-K Reconciliation · P46**

3. **I'm relying on an STR loss against nonpassive income but haven't worked through qualification → loss availability → evidence.**
   **Review: The STR "Tax Loophole" — Do I Qualify? · P49**

4. **I treated a short average stay as automatically making the activity a trade or business, or the loss usable.**
   **Review: How an STR Is Classified · P44 (then P45 / P49)**

5. **I did cost segregation because the deduction looked attractive, but I haven't modeled whether the resulting loss has meaningful current value or the disposition consequences of acceleration.**
   **Review: Is Cost Segregation Worth It? · P51 (and Depreciation · P47)**

6. **My material-participation position depends on hours reconstructed after year-end, with limited factual support.**
   **Review: Material Participation / Time-Log Tracker · P45**

7. **A material position on the return depends on a classification, deduction, or factual assumption I cannot currently support with records.**
   **Review: Documentation & Audit Defense · P48**

### WHERE EACH CONTROL RESOLVES

Classify → P44 · Participate → P45 · Report → P46 · Depreciate → P47 · Document → P48 · Do-I-qualify → P49 · Schedule E vs. C & SE tax → P50 · Cost seg worth it → P51.

*Adjusted basis, depreciation-related disposition consequences, gain, and NIIT belong to the Wealth & Exit domain.*

### OUR INDEPENDENCE

No tax-preparation firm or cost-segregation provider paid for or influenced this checklist. Builders Finance publishes educational tools; this checklist is not tax advice or a substitute for review of your facts by your own qualified tax professional.

**By Matt Nunn, Founder of Builders Finance**