

# The borrow until you die blueprint

*How Short-Term Rental Owners Build Wealth and Legally Avoid Paying Taxes*

You earn a paycheck, get taxed on it, and spend what's left. Owners play a different game: buy an asset that cash flows, hold it, and borrow against the equity instead of selling. One short-term rental gets you into that game.

## The 3 Numbers That Run This Whole Strategy

- **75%:** The loan-to-value cap lenders typically use for a cash-out refinance, based on your property's new appraised value.
- **~25%:** A reasonable rule-of-thumb share of a property's value available as a first-year deduction through cost segregation and bonus depreciation.
- **100 hours:** The material participation threshold you need to hit, and more than anyone else involved, for those losses to offset your W-2 income

## The Blueprint: 4 Steps to the Zero-Tax Snowball

### 1. Buy the asset.

A property that cash flows, depreciates, and appreciates. This is your entry point into the owner's side of the tax code.

### 2. Refinance rather than sell.

Selling triggers capital gains tax, 15-20% of your profit gone the moment you sell. Borrowing against the equity instead means:



- Your \$400,000 property appreciates to \$500,000
- Tenants pay your mortgage down to \$280,000
- A 75% cash-out refinance gets you \$375,000
- Subtract what you owe, and you keep \$95,000, tax-free

It's important to note: by taking the extra \$95,000 in equity, you're also increasing your debt service, your monthly payments go up. Make sure you'll still cash flow when you execute this strategy.

### **3. Refinance rather than sell.**

If you materially participate in running the short-term rental, 100+ hours, more than anyone else, the IRS lets those losses offset your W-2 income too, not only rental income. Example:

- \$100,000 W-2 income, normally \$18,000 to \$22,000 in taxes owed
- \$500,000 short-term rental, cost segregation study done
- ~25% of value = \$125,000 available as a first-year deduction
- That wipes your \$100,000 W-2 income to zero, with \$25,000 left to carry forward.

### **4. Reinvest and repeat**

Take what you didn't pay the IRS and use it as the down payment on the next property. Buy, grow, borrow, buy again. Every cycle adds an asset without a taxable sale. Billionaires do the same thing when they take a \$1 salary and borrow against company stock instead of selling it.

Those taxes you owed don't just disappear. You'll eventually owe them. This strategy kicks the tax bill down the road, it doesn't erase it.



## 3 Rules That Decide Whether You Qualify

### 1. The property has to qualify as short-term in the first place.

The IRS doesn't care what platform you list on. It looks at your average guest stay. If bookings average 7 days or fewer across the year (or up to 30 days with substantial guest services, think daily cleaning or meals), the property isn't treated as a traditional rental. This single rule, under Treasury Regulation 1.469-1T(e)(3)(ii), is what makes short-term rentals eligible for this strategy at all. A property averaging more than 7 days a stay doesn't qualify, no matter how well you materially participate, unless you're clearing that guest-services bar up to 30 days instead.

### 2. There's more than one way to prove material participation.

100 hours and more than anyone else is the test people default to, but the IRS has others, including 500+ hours total regardless of who else is involved. If you use a property manager for day-to-day tasks, the 100-hour test gets harder to win since they're likely logging more hours than you. Keep a written log either way. The IRS can and does ask for it.

### 3. This strategy only works if you hold.

The borrow-until-you-die approach avoids tax because you never trigger a sale. If you eventually sell instead of holding until your heirs inherit it, depreciation recapture applies, taxed at up to 25% federal on the depreciation you claimed. Your exit plan matters as much as your entry plan.

## The 2026 Update

Bonus depreciation was set to shrink to 40% in 2025 and disappear by 2027. The One Big Beautiful Bill Act, signed into law on July 4, 2025, reversed that and permanently restored 100% bonus depreciation for qualifying property placed in service after January 19, 2025. This strategy is fully available today because of that law.

## Run Your Own Numbers

|                                  | Example           | Your Setup |
|----------------------------------|-------------------|------------|
| W-2 income                       | \$100,000         |            |
| Tax owed on that income          | \$18,000–\$22,000 |            |
| Short-term rental purchase price | \$500,000         |            |
| Est. first-year deduction (~25%) | \$125,000         |            |
| Taxable income after deduction   | \$0               |            |
| Loss carried forward             | \$25,000          |            |

## Where to Start

- Buy or already own a short-term rental with an average guest stay of 7 days or less.
- Materially participate: track at least 100 hours managing it, more than any other person involved.
- Get a cost segregation study done before you file.
- Talk to a CPA who specializes in short-term rental tax strategy before you count on any number in this guide.
- Reinvest the tax savings into your next property.



## The Host Camp Take

The tax code rewards owners of productive assets over W-2 earners. This uses the rules as they're written, it doesn't bend them. Material participation is the requirement that trips people up: track your hours, run the business like a business, and be ready to prove it if the IRS asks. Do that, and one short-term rental can do more for your tax bill than a raise ever will.

*Disclaimer: This guide is for educational purposes only and isn't tax, legal, or financial advice. Cost segregation, bonus depreciation, and material participation rules depend on your specific situation. Talk to a CPA who understands short-term rentals before you make a move.*

## What to Do Next

You just learned the mechanism owners use to keep the IRS from touching most of their money. Most people read something like this and do nothing, they go back to the Monopoly board: pass Go, collect \$200, land on Income Tax, hand it back, repeat until the game ends.

**Rob Abasolo and Kai Andrew** built Host Camp into the world's biggest resource for short-term rentals. Visit our website for blogs, newsletters, tools, and personally mentored coaches, all built to help hosts go from managing 1 property to managing a real portfolio, and turn a strategy like this into something real for their own numbers.

We'll tell you straight whether this works for you before you spend a dollar.

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