

Case Study: \$19K Year 1 Tax Savings Using an STR ADU Strategy

A California homeowner used an ADU, cost segregation, and 100% bonus depreciation to generate income and offset other taxable income.

At a glance

Profile: Homeowner ("Client A")

Location: California

Investment: \$200,000 - 600 sq. ft. detached ADU on primary residence

Goal: Generate STR income while maximizing tax savings

Key Metrics:

💰 \$80,000 bonus depreciation unlocked

📄 \$83,000 total depreciation deductions

💵 ~\$19,000 estimated federal tax savings

🏠 \$40,000 annual STR income

Key metrics



\$80,000

in bonus depreciation



\$83,000

in total depreciation deductions



\$19,000

estimated Year 1 tax savings



\$40,000

Annual STR income generated

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Nationwide

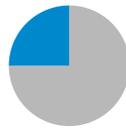
CHALLENGES

Client A wanted to generate income from a newly built ADU while maximizing tax benefits but faced several hurdles:

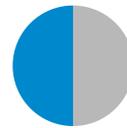
- Ensuring the ADU qualified as a STR business for tax purposes
- Meeting IRS material participation requirements
- Identifying depreciation opportunities through cost segregation
- Managing construction costs and cash flow during build-out

SOLUTIONS

We helped design and execute a strategy that aligned STR tax rules with the client's goals. This included structuring the ADU as a short-term rental, documenting material participation, and performing a cost segregation study to accelerate depreciation while maintaining compliance.



Cost Segregation Study



STR Qualification Strategy



Material Participation Documentation



Bonus Depreciation Planning

BENEFITS

1

Immediate Tax Savings

Generated \$83,000 in depreciation deductions in 2022, creating a \$53,000 nonpassive loss and approximately \$19,000 in federal tax savings.

2

Nonpassive Loss Treatment

By qualifying as a short-term rental and meeting material participation requirements, losses were allowed to offset other income.

3

Long-Term Income & Appreciation

The ADU continues to generate approximately \$40,000 per year in rental income while contributing to long-term property value growth.