



Material Participation

Material Participation (MP) determines whether your rental activity is passive or nonpassive—a classification that directly dictates whether you can use losses to offset W-2 wages and other income. While the IRS offers seven tests, most investors rely on just three:

- Spending 500+ hours;
- Spending 100+ hours (and more than any other individual); or
- Doing substantially all the work.

For rental owners, passing one of these tests is the mandatory first step for both the Short-Term Rental (STR) Strategy and Real Estate Professional Status (REPS).

Key Rules

The Clock Starts At In Service

Material participation hours generally only begin once the property is placed in service (ready and available for rent). Time spent renovating a property *before* it is available for rent typically does not count.

Investor Time Doesn't Count

Market research, deal analysis, reviewing financial statements, and browsing listings might feel productive, but the IRS classifies these as "investor hours." They do not count toward material participation.

Investor-Level Activities Do Not Count

Hours Are Tracked Individual by Individual. If you hire a property management company, you are not competing against the *company's* total hours. You are competing against each individual employee. To pass the "100-hour" test, you simply need to work more hours than any *single* person.

Top FAQs

When do material participation hours officially start?

Only once the rental is "placed in service" (ready and available, advertised). Renovating a property you just bought doesn't generate MP hours unless the property was already in service first.

Does supervising contractors or cleaners count?

Yes, as long as the property is in service and the supervision is active and direct. Passive check-ins or inbox monitoring don't count, but actual direction, approval, and oversight does.

Can acquisition or due-diligence hours count toward MP?

Generally, no. Time spent searching, touring, analyzing, budgeting, or negotiating the purchase is usually considered "investor time" or "start-up costs" and does not count toward the material participation tests. There is a nuanced argument that for Short-Term Rentals (which are treated as a "trade or business"), acquisition time *might* count, but this is an aggressive tax position.

Material participation isn't about doing *everything*—it's about doing enough of the meaningful work to prove your rental is a business, not a passive investment. Log every hour, describe the task clearly, and keep the property in service.



Rental Expert Pod: Jason, Sara, Stuart, Brett and Ashita