

COMPREHENSIVE TAX STRATEGY GUIDE

# The Complete Guide to **Real Estate Professional Status (REPS)**

How High-Income Earners Legally Eliminate Their Tax Bill

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# What's Inside

Everything you need to understand, qualify for, and maximize Real Estate Professional Status.

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**Who is this guide for?** Pilots, physicians, attorneys, executives, engineers — any high-income W-2 earner whose household wants to legally reduce their tax bill by \$50,000–\$200,000+ per year through real estate.

## CHAPTER 1

# What is REPS?

The most powerful legal tax strategy available to real estate investors in the United States.

### The Problem: Passive Activity Loss Rules

Under **Section 469 of the Internal Revenue Code**, the IRS classifies most real estate rental income (and losses) as "**passive**." This means that even if your rental properties generate significant paper losses through depreciation, those losses can only be used to offset other passive income — not your W-2 salary.

For a pilot earning \$400,000 or a physician earning \$600,000, this is devastating. You own rental properties, you have depreciation deductions, but you can't use them against the income that matters most.

### The Solution: Real Estate Professional Status

REPS is the exception written directly into Section 469. When you (or your spouse) qualifies as a **Real Estate Professional**, your rental activities are reclassified from passive to **non-passive**. This single reclassification unlocks the ability to use real estate losses — including depreciation — against **any type of income**.

#### Why REPS Matters

Without REPS: Your \$200K in depreciation losses sit unused, carrying forward indefinitely, waiting for passive income to offset.

With REPS: That same \$200K in depreciation losses **directly reduces your taxable W-2 income** — potentially saving you:

**\$60,000 – \$80,000+**

in federal taxes alone. In a single year.

### The Two Requirements

To qualify as a Real Estate Professional under IRC §469(c)(7), you must meet **both** of these tests:

- 1 **750+ hours per year** spent performing services in real property trades or businesses in which you materially participate
- 2 **More than half of your total working hours** must be spent in real property trades or businesses

**Key Insight:** On a joint tax return, only **one spouse** needs to meet these requirements. You cannot combine hours between spouses. But only one needs to qualify — and that changes everything.

## CHAPTER 2

# The 750-Hour Rule

Understanding exactly what counts — and what doesn't — toward your qualification.

### Breaking Down the Hours

750 hours per year sounds like a lot, but let's put it in perspective:

TIMEFRAME	HOURS REQUIRED	PER DAY EQUIVALENT
Annual	750 hours	—
Monthly	~62.5 hours	—
Weekly	~14.4 hours	~2 hours/day
<b>5 days/week</b>	<b>~15 hours/week</b>	<b>~3 hours/day</b>

If the qualifying spouse works 3 hours per day, 5 days a week, on real estate activities, that's **780 hours** — comfortably above the threshold.

### The "More Than Half" Test

This is the test that trips people up. The qualifying spouse must spend **more time in real estate** than in all other jobs or businesses combined.

### ✔ Qualifies

Real estate hours: **800**

Part-time job: **600**

RE is more than half ✔

### ✘ Does NOT Qualify

Real estate hours: **800**

Full-time W-2 job: **2,000**

RE is NOT more than half ✘

## What "Real Property Trades or Businesses" Means

The IRS defines this broadly under IRC §469(c)(7)(C). Qualifying activities include:

- ✔ Real property development or redevelopment
- ✔ Construction or reconstruction
- ✔ Acquisition of real property
- ✔ Rental of real property
- ✔ Management or operation of real property
- ✔ Brokerage activities related to real property

**Pro Tip:** You must also **materially participate** in each rental activity you want to treat as non-passive. The easiest way: elect to aggregate all rental activities into a single activity using the grouping election (IRC §469(c)(7)(A)). File this election with your tax return. This way, your total hours across ALL properties count as one activity.

## CHAPTER 3

# The Spouse Strategy

Only one spouse needs to qualify — and that's the game-changer for dual-income households.

## Why This Matters

If you're an airline captain, surgeon, or corporate attorney earning \$300K–\$600K+, you almost certainly **cannot** qualify for REPS yourself. You'd need to spend more than half your working hours on real estate, and your primary career makes that impossible.

But on a **joint tax return**, the IRS allows one spouse's REPS qualification to apply to the entire household. The non-passive treatment of rental losses flows through to the joint return — offsetting **both** spouses' income.

### The Math That Changes Everything

**Household income:** \$500,000 (Captain: \$350K + Spouse: \$150K)

**Spouse qualifies for REPS** → manages properties, 800+ hours logged

**Depreciation deductions from cost-segregated properties:** \$250,000

**Result:** Taxable income drops from \$500K to \$250K

**\$80,000 – \$100,000+**

saved in federal taxes. Every single year.

### Ideal Spouse Scenarios

- ✓ **Stay-at-home parent** — dedicates 3+ hours/day to RE activities (property management, bookkeeping, acquisitions research)
- ✓ **Part-time employee** — works 20 hours/week at a W-2 job; spends 15+ hours/week on RE (RE hours exceed W-2 hours)
- ✓ **Real estate agent or property manager** — already in the industry; documenting hours is natural
- ✓ **Spouse who manages your rentals** — handles tenant communication, maintenance coordination, bookkeeping, marketing
- ✓ **Entrepreneur with flexible schedule** — can allocate blocks of time to RE activities consistently

### When the Spouse Strategy Doesn't Work

- ✗ **Both spouses work full-time W-2 jobs** — difficult for either to meet the "more than half" test
- ✗ **Spouse's W-2 hours exceed RE hours** — even by a single hour, the test fails
- ✗ **Filing separately** — each spouse is evaluated independently; no benefit sharing

**Critical:** The qualifying spouse must be the one who materially participates in the rental activities. The high-earning spouse's hours **cannot** be combined with the qualifying spouse's hours. Each person's hours stand alone.

### Turn your tax bill into your next investment.

Find out how much you overpaid in taxes in 90 seconds — free. WealthStrategy is the AI tax strategist and investment platform built for high-income earners.

[Get Your Free Tax Checkup → wealthstrategy.ai](https://wealthstrategy.ai)

## CHAPTER 4

# Complete List of Qualifying Activities

Every hour counts — if you know what qualifies. Here are 12+ categories the IRS recognizes.

### 1. Property Management

Day-to-day oversight of rental properties: coordinating repairs, handling tenant issues, enforcing lease terms, conducting inspections, supervising contractors and property management companies.

### 2. Maintenance & Repairs

Hands-on work or coordination: fixing plumbing, painting, landscaping, HVAC service calls, appliance replacement, seasonal maintenance schedules, cleaning between tenants.

### 3. Tenant Relations

Screening prospective tenants, showing properties, processing applications, executing leases, handling complaints, managing move-ins/move-outs, lease renewals, eviction proceedings.

### 4. Bookkeeping & Financial Management

Recording rental income and expenses, managing accounts payable, reconciling bank statements, tracking security deposits, preparing financial reports, budgeting for capital expenditures.

### 5. Acquisition & Due Diligence

Researching markets, analyzing deals, touring properties, reviewing inspection reports, negotiating purchase agreements, coordinating with lenders, reviewing title reports, attending closings.

## **6. Construction & Renovation**

Overseeing renovation projects, reviewing contractor bids, managing timelines and budgets, selecting materials, obtaining permits, inspecting completed work, value-add improvements.

## **CHAPTER 4 (CONTINUED)**

# **Qualifying Activities Continued**

## **7. Legal & Compliance**

Reviewing and drafting leases, consulting with attorneys on real estate matters, handling fair housing compliance, addressing code violations, managing insurance claims, entity structuring for properties.

## **8. Marketing & Advertising**

Creating property listings, photographing units, managing online listings (Zillow, Apartments.com, Airbnb), responding to inquiries, designing marketing materials, managing social media for properties.

## **9. Travel for Real Estate**

Driving to properties for inspections, meetings, or maintenance. Traveling to view potential acquisitions. Attending real estate closings. Travel time to and from RE-related activities counts.

## **10. Education & Professional Development**

Attending real estate courses, seminars, and conferences. Reading real estate investment books and publications. Listening to RE podcasts. Studying tax code changes related to real estate. Participating in RE investor groups and masterminds.

## **11. Financing & Capital Activities**

Researching and applying for loans, meeting with lenders, reviewing loan documents, managing refinance processes, coordinating with mortgage brokers, analyzing financing structures.

## **12. Development & Entitlement**

Land use research, attending zoning hearings, working with architects and engineers, environmental studies, site planning, navigating municipal approval processes, working on development projects.

## Hours Add Up Fast

Consider a typical week for a qualifying spouse managing 3-5 rental properties:

Property management calls & emails: **5 hrs** | Bookkeeping & financials: **3 hrs** | Maintenance coordination: **2 hrs** | Deal research & analysis: **3 hrs** | Education & networking: **2 hrs**

**Total: ~15 hours/week = 780 hours/year.** Above the threshold.

## CHAPTER 5

# Activities That **DO NOT** Qualify

Knowing what doesn't count is just as important as knowing what does.

The IRS is very specific about what qualifies for REPS hours. Including non-qualifying activities in your log can undermine your entire claim. Here's what to avoid:

### Investor-Only Activities

- X Reviewing financial statements as a passive investor** — reading K-1s or quarterly reports from a syndication you invested in does not count

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- X Monitoring stock or REIT performance** — tracking real estate stocks, REITs, or real estate ETFs is investment activity, not real property activity

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- X Attending investor webinars for passive investments** — learning about a deal you're passively invested in doesn't make you a participant

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### Personal Use

- X Time spent enjoying your own vacation rental** — personal use days are specifically excluded

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- X Maintaining your primary residence** — mowing your own lawn or renovating your own kitchen doesn't count

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- X Shopping for furniture for your home** — only counts if for a rental property

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## W-2 Employer Time

- ✗ **Time spent at your non-real-estate job** — cannot count airline, medical, legal, or other W-2 hours
- ✗ **Employer-related real estate tasks** — if your employer asks you to help find office space, those hours don't count for your personal REPS status

## General Networking & Social

- ✗ **Casual conversations about real estate** — talking about RE at a dinner party is not a qualifying activity
- ✗ **General business networking events** — unless directly related to your real estate activities
- ✗ **Social media scrolling** — browsing real estate content on Instagram or TikTok doesn't count (creating marketing content for YOUR properties does)

## REIT Management

- ✗ **Managing REIT investments** — REITs are securities, not real property trades or businesses
- ✗ **Crowdfunding platform investments** — passive real estate investments through platforms like Fundrise or RealtyMogul do not generate qualifying hours

⚠ **IRS Red Flag:** If you claim REPS and include non-qualifying activities in your hour log, the IRS can disallow your **entire** REPS claim — not just the invalid hours. Be conservative and accurate.

## CHAPTER 6

# Cost Segregation + REPS = Maximum Savings

This is the most powerful legal tax combination available to real estate investors.

### How Cost Segregation Works

Normally, residential rental property is depreciated over **27.5 years** using straight-line depreciation. For a \$1M property (with \$800K in depreciable building value), that's about \$29,000 per year.

A **cost segregation study** is an engineering analysis that reclassifies building components into shorter depreciation lives:

COMPONENT	STANDARD LIFE	AFTER COST SEG	EXAMPLES
Building structure	27.5 years	27.5 years	Foundation, walls, roof
Personal property	27.5 years	5–7 years	Appliances, carpeting, fixtures
Land improvements	27.5 years	15 years	Landscaping, parking, fencing
<b>With bonus depreciation</b>	—	<b>Year 1</b>	<b>5, 7, and 15-year assets</b>

## The REPS Unlock

Here's the critical point: **Without REPS**, even if you do a cost segregation study, the accelerated depreciation generates **passive losses**. They sit on the shelf, unable to offset your W-2 income.

**With REPS**, those same losses become **non-passive** — immediately deductible against your salary, bonuses, and all other income.

### Real Numbers: \$1M Property Purchase

#### Without Cost Seg + No REPS:

\$29K/year depreciation → trapped as passive loss → \$0 tax savings on W-2 income

#### With Cost Seg + REPS:

\$250K–\$350K in Year 1 accelerated depreciation → non-passive loss → directly offsets W-2 income

# \$87,500 – \$130,000+

in Year 1 federal tax savings (at 37% marginal rate)

**Great News:** As of 2025, 100% bonus depreciation has been permanently restored under the "Big Beautiful Bill." This means you can deduct the full cost of accelerable components (5-year, 7-year, and 15-year property) in Year 1. This is a massive win for real estate investors using cost segregation + REPS.

## CHAPTER 7

# Documentation & Audit Protection

The IRS will challenge REPS if you can't prove it. Here's how to bulletproof your claim.

### Why Documentation Is Everything

REPS is one of the most audited tax positions for high-income earners. The IRS knows the tax savings are enormous — and they want to verify that taxpayers actually meet the requirements. In Tax Court cases, the #1 reason people lose their REPS status is **inadequate documentation**.

### What the IRS Looks For

- ✓ **Contemporaneous time logs** — records kept in real-time, not reconstructed at year-end

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- ✓ **Specificity** — "Managed properties — 3 hours" is not enough. "Called plumber for Unit 2B leak, coordinated repair schedule, followed up with tenant — 45 min" is

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- ✓ **Consistency** — logs should show regular, ongoing activity, not suspiciously round numbers every day

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- ✓ **Supporting evidence** — emails, text messages, receipts, mileage logs, photos that corroborate your entries

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### How to Keep Bulletproof Records

- 1 Log daily, not monthly.** Set a daily 5-minute reminder to record your RE activities. Describe WHAT you did, for WHICH property, and HOW LONG it took.
- 2 Use WealthStrategy.ai's REPS Tracker.** Purpose-built for REPS hour logging with AI-assisted entry, mileage tracking, category classification, and audit-ready report generation. One app for everything.
- 3 Keep supporting documents.** Save emails to/from tenants, contractors, and vendors. Keep receipts. Take photos of maintenance work. These corroborate your logs.
- 4 Track mileage in the tracker.** Log driving to properties, Home Depot trips for supplies, and meetings with vendors — all within the WealthStrategy REPS tracker with automatic mileage calculation.
- 5 Store everything digitally.** Cloud-based storage (Google Drive, Dropbox) with organized folders by property and year. Physical records get lost; digital records survive.

### Sample Daily Log Entry

**Date:** March 15, 2026

**Property:** 123 Oak Street, Unit 2B (Orlando rental)

**Activity:** Tenant reported HVAC not cooling. Called HVAC contractor (ABC Heating — 555-0123). Scheduled service visit for March 17. Emailed tenant confirmation. Reviewed March rent deposits. Responded to Airbnb guest inquiry for Magic Manor — sent house rules and check-in instructions.

**Time:** 1 hour 15 minutes

**The Only Tool You Need**

## WealthStrategy.ai — REPS Tracker

Everything you need in one platform — built specifically for REPS qualification:

- ✓ **AI-Assisted Logging** — describe your day in plain English, AI categorizes and logs your hours automatically
- ✓ **Phone Call Import** — import your call log, AI identifies RE-related calls and counts the time
- ✓ **Mileage Tracking** — log drives to properties with automatic mileage calculation
- ✓ **750-Hour Progress Dashboard** — real-time tracking toward your annual goal with pace alerts
- ✓ **Spouse Comparison** — side-by-side tracking for both spouses
- ✓ **Property Financial Tracking** — income, expenses, and depreciation per property
- ✓ **Audit-Ready Reports** — generate CPA-ready PDF reports with category breakdowns, monthly summaries, and IRS activity type mapping
- ✓ **Quick Templates** — one-tap logging for common activities (property showing, contractor meeting, tenant call)

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## CHAPTER 8

# Real-World Example: A Pilot's Spouse Qualifies for REPS

A detailed walkthrough of how one household saved over \$90,000 in taxes.

### The Household

**Captain James** — Airline captain, W-2 income: \$380,000/year. Works 15 days/month on average. Cannot qualify for REPS due to flight hours.

**Sarah (spouse)** — Former marketing professional. Works part-time as a freelance consultant (~400 hours/year). Manages the family's 4 rental properties.

## Sarah's Real Estate Activities (Annual)

ACTIVITY CATEGORY	MONTHLY HOURS	ANNUAL HOURS
Property management & tenant communication	20	240
Bookkeeping & financial tracking	8	96
Maintenance coordination & inspections	10	120
Deal research & market analysis	8	96
Education (courses, podcasts, networking)	6	72
Travel to/from properties	6	72
Marketing & listing management	4	48
Legal, insurance & compliance	3	36
<b>TOTAL</b>	<b>65</b>	<b>780</b>

### Does Sarah Qualify?

- ✓ **Test 1:** 780 hours > 750 hours ✓
- ✓ **Test 2:** 780 RE hours > 400 consulting hours — more than half ✓
- ✓ **Material participation:** Sarah manages all 4 properties directly ✓
- ✓ **Grouping election filed** to aggregate all rentals as one activity ✓

### The Tax Impact

The family's 4 properties (total acquisition cost: \$2.2M) had cost segregation studies performed. Year 1 accelerated depreciation: **\$280,000**.

## Result

Joint household income: **\$380,000** (after consulting income and rental operating income)

REPS-unlocked depreciation deduction: **\$280,000**

Adjusted taxable income: **~\$100,000**

# \$93,000+

saved in federal taxes in Year 1 alone.

## CHAPTER 9

# Year-by-Year Tax Impact

A 5-year projection showing the cumulative power of REPS + cost segregation.

Using the same household from our example (Captain James & Sarah, \$380K combined W-2/consulting income, \$2.2M in rental properties with cost segregation):

YEAR	W-2 + OTHER INCOME	DEPRECIATION DEDUCTION	TAXABLE INCOME	ESTIMATED TAX SAVINGS
Year 1	\$380,000	(\$280,000)	\$100,000	<b>\$93,000</b>
Year 2	\$390,000	(\$65,000)	\$325,000	<b>\$22,000</b>
Year 3	\$400,000	(\$58,000)	\$342,000	<b>\$19,500</b>
Year 4	\$410,000	(\$52,000)	\$358,000	<b>\$17,500</b>
Year 5	\$420,000	(\$48,000)	\$372,000	<b>\$16,000</b>
<b>5-Year Total</b>	<b>\$2,000,000</b>	<b>(\$503,000)</b>	—	<b>\$168,000</b>

**Note:** Year 1 captures the majority of savings due to cost segregation front-loading depreciation. Years 2–5 reflect ongoing straight-line depreciation on remaining building value. Each NEW property acquisition with cost segregation creates another Year 1 spike.

## The Compounding Effect

Smart investors don't stop at one property. They use the tax savings to fund additional acquisitions:

- 1** **Year 1:** Buy properties → cost seg → save \$93K in taxes
- 2** **Year 2:** Reinvest tax savings into new property → new cost seg → another massive Year 1 deduction on the new property
- 3** **Year 3:** Repeat — each new acquisition creates a new depreciation "spike"
- 4** **Year 4-5:** Portfolio grows, annual depreciation remains high, tax savings compound

## The Snowball Effect

Families who reinvest their tax savings into additional cost-segregated properties can generate **\$50,000–\$100,000+ in annual tax savings indefinitely** — legally, sustainably, and with growing equity in real assets.

This is how generational wealth is built.

## What's YOUR number?

Our AI calculates your potential savings in 90 seconds. Free tax checkup — see three paths to lower taxes based on YOUR income and properties.

**[Run Your Free Tax Checkup → wealthstrategy.ai](https://wealthstrategy.ai)**

## CHAPTER 10

# Common Mistakes That Disqualify You

Avoid these pitfalls — each one has cost real taxpayers their REPS status in IRS audits and Tax Court.

### **Mistake #1: Reconstructing Hours After the Fact**

The IRS requires **contemporaneous records** — logs kept in real-time, not created in April when your CPA asks for them. Tax Court has repeatedly thrown out REPS claims where taxpayers created logs after year-end. Log daily. No exceptions.

### **Mistake #2: Rounding to Suspiciously Even Numbers**

"3 hours every single day for 365 days" will raise red flags. Real activity logs have variation — 45 minutes one day, 4 hours the next, zero on some days. Accuracy matters more than neatness.

### **Mistake #3: Not Filing the Grouping Election**

Without the aggregation election, each rental property is evaluated separately for material participation. You must file the election to treat all rental activities as a single activity. It's filed with your tax return and it's irrevocable for future years (unless facts change substantially).

### **Mistake #4: The Qualifying Spouse Exceeds the "Half" Test**

If your spouse takes on a new job or increases their non-RE work hours mid-year, they could inadvertently fail the "more than half" test. Monitor hours throughout the year, not just at tax time.

### **Mistake #5: Including Non-Qualifying Activities**

Reviewing your K-1 from a syndication, managing REIT investments, or personal use of a vacation rental — none of these count. Including them inflates your log and can invalidate your entire claim.

### **Mistake #6: No Material Participation in Each Activity**

REPS gets your losses reclassified, but you still need to **materially participate** in each rental activity (or aggregate them). Simply owning property and hiring a property manager doesn't satisfy this requirement if you're completely hands-off.

### **Mistake #7: Ignoring State Tax Rules**

Some states don't conform to federal REPS rules. California, for example, has its own passive activity loss limitations. Check with a CPA who knows your state's rules.

### **Mistake #8: Stopping Mid-Year**

REPS is an annual qualification. If you qualify one year but slack off the next, you lose the status for that year. Every year is a fresh 750-hour clock.

⚠ **The Stakes:** Losing REPS in an audit doesn't just mean paying back taxes. It means penalties, interest, and potentially years of amended returns. Get it right from the start.

## CHAPTER 11

# Frequently Asked Questions

The 10 most common questions about Real Estate Professional Status — answered.

### **Q1: Does travel time to properties count toward my 750 hours?**

Yes. Travel to and from properties for inspections, maintenance, tenant meetings, and other RE activities counts. Log your mileage in the WealthStrategy REPS Tracker and note the purpose of each trip.

### **Q2: Do phone calls with tenants, contractors, and vendors count?**

Absolutely. Phone calls, emails, and text messages related to managing your properties are qualifying activities. Log the duration and purpose of each communication.

### **Q3: Does real estate education count? Podcasts, courses, books?**

Yes — real estate education directly related to your rental activities counts. This includes courses, seminars, conferences, and even podcast listening related to property management, tax strategy, and RE investing. Be reasonable; don't claim 8 hours/day of "education."

### **Q4: What if my spouse has a part-time job?**

That's fine — as long as RE hours exceed the part-time job hours. If your spouse works 600 hours at a part-time job, they need 601+ hours in RE (and still at least 750 total). The "more than half" test compares RE hours to ALL other work hours.

### **Q5: Can I count hours spent on a property I'm developing but haven't yet rented?**

Yes. Development and construction activities count as "real property trades or businesses" under the statute. Hours spent on acquisition, renovation, and pre-rental development all qualify.

## FAQ Continued

### Q6: Do I need to be a licensed real estate agent to qualify?

No. REPS has nothing to do with holding a real estate license. You qualify based on your hours spent in real property trades or businesses — not credentials. However, having a license can make it easier to document hours and adds credibility if audited.

### Q7: Can both spouses qualify for REPS independently?

Yes, but it's not necessary. On a joint return, only one spouse needs to qualify. Each spouse's hours are evaluated independently — you cannot combine hours. If both qualify, great, but the tax benefit is the same as long as one qualifies.

### Q8: What happens if I don't hit 750 hours one year?

You lose REPS status for that year. Your rental losses revert to passive status for that tax year. Unused passive losses carry forward to future years when you either (a) have passive income to offset, (b) re-qualify for REPS, or (c) sell the property (at which point suspended losses are released).

### Q9: I use a property management company. Can I still materially participate?

Yes, but it requires careful documentation. You must actively oversee the property manager — reviewing reports, making decisions, approving expenditures, and directing strategy. Simply hiring a manager and being hands-off is not material participation. The more involved you are, the stronger your position.

### Q10: How far back can the IRS audit my REPS claim?

The standard audit window is 3 years from filing. However, if the IRS believes there's a substantial understatement of income (more than 25%), they can go back 6 years. In cases of fraud, there's no time limit. Keep your records for at least 7 years.

**Still have questions?** REPS is complex and highly individual. The details matter enormously. Work with a CPA who specializes in real estate tax strategy — not a generalist. The cost of expert advice is a fraction of the tax savings at stake.

LET'S CONNECT

## Connect With Michael

Ready to take control of your tax strategy? I'd love to hear from you.

### Ready to Take the Next Step?

I help high-income earners understand and implement these strategies. Whether you're exploring REPS qualification, looking at investment opportunities, or just want to connect — reach out.

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