FREE INVESTMENT GUIDE

The High-Income Earner's Guide to Real Estate Tax Strategy

The playbook that wealthy families have used for generations — explained in plain English.

Michael DiChiaro

Airline Captain | Real Estate Investor | Developer

INTRODUCTION

Why I Wrote This Guide

I spent years as an airline captain earning great money — and watching nearly 40% of it go to the IRS. This guide is what I wish someone had given me a decade ago.

If you're a high-income W-2 earner — a pilot, physician, attorney, engineer, or executive — you already know the pain. You work incredibly hard. You earn well. And then you watch an enormous chunk of your paycheck disappear to taxes.

Your financial advisor talks about maxing out your 401K and diversifying into index funds. Your CPA files your return. But nobody tells you about the strategies that the truly wealthy have been using for generations.

Strategies like **Real Estate Professional Status (REPS)**, **accelerated depreciation**, **cost segregation studies**, and **creative financing structures** — tools that are 100% legal, written directly into the Internal Revenue Code, and specifically designed to benefit real estate investors.

I'm not a CPA or financial advisor. I'm a Airline Captain with 27+ years in aviation who got tired of writing massive checks to the government — and decided to educate myself. What I learned changed my entire financial trajectory.

Today, I:

- ✓ Invest strategically in real estate with accelerated depreciation
- ✓ Qualify for Real Estate Professional Status (REPS)
- ✓ Am developing a $116M aviation community in Florida
- ✓ Operate two themed vacation rentals near Disney World
- ✓ Partner with operators on large-scale real estate deals

> **This guide covers the exact strategies we use.** It's written in plain English — no jargon, no fluff. Just the playbook, explained simply, so you can take action.

CHAPTER 1

Real Estate Professional Status (REPS)

The single most powerful tax strategy available to married high-income households.

What Is REPS?

Under normal IRS rules, real estate losses are classified as "passive losses." This means they can only offset other passive income — not your W-2 salary. Your $400K airline income? Untouchable.

But when you or your spouse qualifies as a **Real Estate Professional**, everything changes. Your real estate losses become **non-passive** — meaning they can offset ANY income, including your W-2.

The Impact

A household earning $500K with REPS status and the right real estate portfolio could reduce their annual tax bill by:

$100,000 - $200,000+

Same income. Same family. Different tax strategy.

How to Qualify

Only **ONE spouse** needs to meet these two requirements:

1. **750+ hours per year** spent on real estate activities (property management, acquisitions, deal analysis, RE education, tenant communication, bookkeeping)

2. **More time in real estate than any other job.** If your spouse works a W-2 job, they need to spend more hours on RE than at that job.

Who It Works Best For

- ✓ A spouse who works in real estate (agent, property manager, acquisitions)
- ✓ A spouse who manages your rental properties (even part-time)
- ✓ A stay-at-home parent who dedicates time to RE activities
- ✓ A spouse who works part-time (under 750 hours) at another job

> **Critical:** Document EVERYTHING. Keep a detailed time log. The IRS can audit REPS status, and your only defense is your records. Apps like REPStracker make this simple.

CHAPTER 2

Accelerated Depreciation & Cost Segregation

How to turn a $1M property into $200K-$400K in tax deductions — in year one.

How Depreciation Works

When you buy real estate, the IRS lets you "depreciate" the building's value over time — 27.5 years for residential property. This creates a **paper loss** that offsets your real income, even though your property may be appreciating in value.

For a $1M property (with $800K in building value), standard depreciation gives you about **$29,000 per year** in deductions. Helpful, but not life-changing.

Enter: Cost Segregation

A **cost segregation study** is an engineering-based analysis that reclassifies parts of your property into shorter depreciation timelines:

- ✓ 27.5-year property → reclassified as 5, 7, or 15-year components
- ✓ Carpeting, appliances, landscaping, parking lots, specialty wiring — all depreciate faster
- ✓ Combined with bonus depreciation, you can front-load massive deductions into year one

Real Example

$1M property purchase:

Without cost segregation: ~$29K/year in depreciation

With cost segregation: **$200K - $400K in year one**

That's $200K-$400K in income that the IRS cannot tax.

The Power Combo: REPS + Cost Segregation

Here's where it gets truly powerful. When you combine REPS status with a cost-segregated property:

1. **Buy a property** with an operator who includes a cost segregation study
2. **Accelerate depreciation** — generate $200K-$400K in paper losses in year one
3. **Apply REPS status** — those losses become non-passive and offset your W-2 income
4. **Enjoy the result** — your taxable income drops dramatically, legally

> **Important:** This isn't a loophole. It's Sections 167, 168, and 469 of the Internal Revenue Code, working exactly as designed. The tax code was written to encourage real estate investment.

CHAPTER 3

Be Your Own Bank

Stop letting your bank earn returns on YOUR money.

The Problem With "Safe" Money

Most Americans park their savings in bank accounts earning 0.5% — maybe a CD at 4% if they're proactive. Meanwhile, inflation runs at 3-4% annually. Your "safe" money is slowly losing purchasing power every single day.

❌ Traditional Savings

Savings account: **0.5%**

CDs: **3-4%**

After inflation: **~0% real return**

Your bank lends your money at 7-8% and keeps the profit

✅ Private Lending

Simple interest: **10-15%**

Secured by: **Real property**

After inflation: **6-11% real return**

YOU are the bank — your money works for YOU

How Private Lending Works

1. **Find a trusted operator** — someone with a track record of buying, renovating, and selling or holding real estate
2. **Lend your capital** — the operator uses your funds to acquire or renovate property
3. **Earn fixed interest** — typically 10-15% simple interest, paid monthly or at maturity
4. **Secured by real property** — your loan is backed by the actual real estate asset

Who Can Do This?

You don't need to be an accredited investor. You don't need real estate experience. You need:

- ✓ Capital to lend (even $25K-$50K can get started)
- ✓ A trusted operator with a verifiable track record
- ✓ Proper legal documentation (promissory note, deed of trust)
- ✓ The willingness to stop letting your bank get rich off your deposits

> Experienced operators acquire large real estate assets and bring in investment partners. Investors can participate in these deals — receiving both equity AND the tax benefits that come with ownership. That's the operator partnership model in action.

CHAPTER 4

Operator Partnerships

Real estate exposure without becoming a landlord.

The Old Way vs. The Smart Way

❌ The Old Way

Browse Zillow for properties

Manage tenants yourself

Handle maintenance at 2 AM

Swing hammers on weekends

Limited to properties you can find and afford

✅ The Smart Way

Partner with experienced operators

Invest capital into vetted deals

Receive equity ownership

Collect depreciation benefits

Access deals worth millions you'd never find alone

How It Works

Experienced real estate operators find, acquire, and manage properties. They need capital to fund these deals. That's where you come in.

1. **The operator finds a deal** — vetted, analyzed, and structured for returns
2. **You invest capital** — becoming a partial owner of the property
3. **The operator executes** — managing the project from acquisition through stabilization
4. **You receive returns** — equity appreciation, cash flow, AND depreciation benefits

5 Questions to Ask Any Operator

- ✓ What is your track record? (Ask for specific deal history with numbers)
- ✓ How is the deal structured? (Equity split, preferred returns, waterfall)
- ✓ What are the projected returns AND the downside scenarios?
- ✓ Will a cost segregation study be performed? (Critical for tax benefits)
- ✓ How and when will I receive distributions and tax documents?

> **The key insight:** You bring capital. The operator brings the deal, the execution, and the expertise. Your money works 10x harder than a savings account — and you never unclog a toilet at midnight.

CHAPTER 5

Creative Financing

How the wealthy buy real estate without using (much of) their own money.

Beyond the Traditional Mortgage

Most people think buying real estate means going to a bank, getting approved for a mortgage, and putting 20% down. That works — but it's the slowest, most expensive way to build a portfolio.

Creative financing strategies allow you to acquire real estate with **little or none of your own capital**, move faster than traditional buyers, and structure deals for maximum tax efficiency.

Key Strategies

Subject-To (SubTo) Financing

Buy a property "subject to" the existing mortgage. The seller's loan stays in place — you take ownership and make the payments. No bank qualification needed. No new loan origination fees.

Seller Financing

The seller acts as the bank. You negotiate the terms directly: interest rate, payment schedule, down payment. Often more flexible than any traditional lender.

Private Money Lending

Borrow from private individuals (like the "Be Your Own Bank" strategy — but from the borrower's side). Faster than banks, more flexible terms, relationship-based.

1031 Exchanges

Sell an investment property and defer 100% of the capital gains taxes by reinvesting into a "like-kind" property within 180 days. Your equity grows tax-free, deal after deal.

Why This Matters for Tax Strategy

Creative financing isn't just about buying property. It's about **structuring deals** for maximum tax efficiency. The right structure can mean the difference between a good investment and a great one — especially when combined with REPS status and cost segregation.

CHAPTER 6

Asset Protection

Building wealth is step one. Protecting it is step two.

Why High-Income Earners Need Protection

If you're earning $200K+, you're a target — for frivolous lawsuits, creditors, and unnecessary tax exposure. The more wealth you build, the more important it becomes to protect it.

Key Protection Strategies

- ✓ **LLCs for each property** — separate liability for each investment; one lawsuit doesn't touch everything
- ✓ **Series LLCs** — one parent entity with unlimited "cells," each holding a property; cost-effective structure
- ✓ **Land trusts** — hold property anonymously; your name doesn't appear in public records
- ✓ **Umbrella insurance** — additional liability coverage beyond your standard policies; inexpensive peace of mind
- ✓ **Operating agreements** — define ownership, responsibilities, and what happens in worst-case scenarios
- ✓ **Estate planning** — ensure your wealth transfers to your family, not the IRS, when the time comes

> **The rule of thumb:** Never hold investment property in your personal name. Always use a legal entity. The cost of setting up an LLC is a fraction of what a single lawsuit could cost you.

Building Your Team

No one builds wealth alone. Your team should include:

- ✓ **Tax strategist** (not just a CPA who files — one who PLANS)
- ✓ **Real estate attorney** familiar with asset protection structures
- ✓ **Cost segregation specialist** for maximizing depreciation
- ✓ **Trusted operators** for deal sourcing and execution
- ✓ **Insurance broker** who understands real estate investor needs

YOUR NEXT STEPS

The Action Plan

Knowledge without action is just entertainment. Here's how to start.

1. **Assess your tax situation.** Look at your last tax return. How much did you pay in federal taxes? State taxes? What's your effective tax rate? This is your starting point — and your motivation.

2. **Talk to a tax strategist.** Not your current CPA (unless they specialize in real estate tax strategy). Find someone who PLANS taxes, not just files them. Ask about REPS qualification for your household.

3. **Evaluate your household's REPS potential.** Can your spouse dedicate 750+ hours to real estate activities? What would that look like for your family?

4. **Connect with operators.** Start building relationships with experienced real estate operators. Ask the 5 questions from Chapter 4. Look for track records, not promises.

5. **Start educating yourself.** Join communities, read books, listen to podcasts. The more you learn, the better questions you'll ask — and the better deals you'll find.

6. **Take imperfect action.** You don't need to know everything to start. The first deal doesn't need to be perfect. It needs to be done.

Ready to Take the Next Step?

I help high-income earners understand and implement these strategies. Whether you're exploring investment opportunities, interested in our aviation community development, or just want to connect — I'd love to hear from you.

michael@wealthstrategy.ai

wealthstrategy.ai

Connect With Michael

Website: wealthstrategy.ai

Podcast: Runway to Wealth

LinkedIn: wealthstrategy.ai

AI Platform: wealthstrategy.ai

Email: michael@wealthstrategy.ai

Instagram: @wealthstrategy.ai

X/Twitter: @wealthstrgy

Facebook: WealthStrategy

🎧 **Podcast: Runway to Wealth**

Tax strategy, real estate investing, and wealth building — for pilots, physicians, and high-income professionals. Listen on Apple Podcasts.

🤖 **WealthStrategy.ai**

AI-powered tax strategy platform for high-income earners. Join the waitlist →

Disclaimer: This guide is for educational purposes only and does not constitute tax, legal, or financial advice. Every situation is different. Always consult a qualified CPA, tax attorney, or financial advisor before implementing any tax strategy. Michael DiChiaro is not a CPA, tax attorney, or registered investment advisor.

The strategies discussed may not be suitable for all individuals. Tax laws and regulations change frequently. Past performance is not indicative of future results. Real estate investing involves risk, including potential loss of capital.