



Jan. 2024

ARE YOU AN ACTIVE, MATERIAL OR A PASSIVE PARTICIPATING BUSINESS?

Active Participation

Active participation is not the same as material participation, defined later. Active participation is a less stringent standard than material participation. For example, you may be treated as actively participating if you make management decisions in a significant and bona fide sense. Management decisions that count as active participation include approving new tenants, deciding on rental terms, approving expenditures, and similar decisions.

Material Participation Tests

You did not materially participate in the activity under test (7) if you participated in the activity for 100 hours or less during the year. Your participation in managing the activity does not count in determining whether you materially participated under this test if:

You materially participated in a trade or business activity for a tax year if you satisfy any of the following tests:

1. You participated in the activity for more than 500 hours.
2. Your participation was substantially all the participation in the activity of all individuals for the tax year, including the participation of individuals who did not own any interest in the activity.
3. You participated in the activity for more than 100 hours during the tax year, and you participated at least as much as any other individual (including individuals who did not own any interest in the activity) for the year.

- 4. The activity is a significant participation activity, and you participated in all significant participation activities for more than 500 hours. A significant participation activity is any trade or business activity in which you participated for more than 100 hours during the year and in which you did not materially participate under any of the material participation tests, other than this test.**
 - 5. You materially participated in the activity for any 5 (whether or not consecutive) of the 10 immediately preceding tax years.**
 - 6. The activity is a personal service activity in which you materially participated for any 3 (whether or not consecutive) preceding tax years. An activity is a personal service activity if it involves the performance of personal services in the fields of health (including veterinary services), law, engineering, architecture, accounting, actuarial science, performing arts, consulting, or any other trade or business in which capital is not a material income-producing factor.**
 - 7. Based on all the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the year.**
- Any person other than you received compensation for managing the activity, or**
 - Any individual spent more hours during the tax year managing the activity than you did (regardless of whether the individual was compensated for the management services).**

Material participation tests are a set of Internal Revenue Services (IRS) criteria that evaluate whether a taxpayer has materially participated in a trade, business, rental, or other income-producing activity. A taxpayer materially participates if they pass one of the seven material participation tests. However, passive activity rules limit the deductibility of losses when taxpayer participation fails to meet at least one of the seven material participation tests.