

Rental Deductions



Rental Deductions Tax Preparation

Posted Thursday, January 23, 2025

Rental properties can be great investments and offer some ways to shelter your taxable income through rental deductions. However, there are several tax related issues during the purchase, management, and sale of your rental property which can ultimately affect your rental income tax rate.

The proper handling, coordination, and reporting of taxable events such as closing costs, repairs versus improvements, depreciation, 1031 exchanges (and even reverse 1031 exchanges) seemingly innocent HOA dues and mileage can improve your tax consequence. While incorrect tax reporting can start the slow brewing of future problems.

Rental Property Business Owners

Most rental property owners would define themselves as investors. Yeah, sure, why not? However, would you call Warren Buffett an investor or a business owner? We would call him a business owner who happens to make investments with his business into other businesses. Perhaps we are splitting hairs and getting caught up in semantics, but at the same time, we look at you and your rental properties as a business. As such, your business needs the care and guidance of business consultants, and that's where **WCG CPAs & Advisors** excels. We help you take the emotions out of rental property management and have a detached, business-oriented perspective to help you build wealth by maximizing your rental deductions.

Rental Property Tax Preparation

For our real estate investors and rental property owners, our tax return preparation fees start at \$800. There are two considerations- rental property setup, and then rental property tax return preparation.

Rental Setup Fees

If you are new to WCG CPAs & Advisors, or if you have recently acquired a rental property, here are typical set up fees-

Rental Setup, Existing Rental Prior to 2024 (unless nutty asset listing)	125 ea
Rental Setup, New Rental Purchased in 2024 (yay!)	200 ea

Rental Setup, New Short Term Rental Purchased in 2024	250 ea
Add On: Cost Seg Setup, New Rental in 2024	150
Add On: Cost Seg Setup + 3115, Existing Rental Prior to 2024	450
Add On: 3115 only	375
Add On: Rental Acquired in a 2024 1031 Exchange	250
Add On: Rental Acquired before 2024 in a 1031 Exchange	350
Add On: Commercial, Several Assets, Overall Nuttiness	varies

Ok, neat. Should we run through some examples?

Rental Setup Examples

You are new to WCG (yay) and you purchased a rental property in 2024 that is a short-term rental and you did a **cost segregation study** as well. Your setup fees would be $\$250 + \$150 = \$400$.

You are new to WCG (double yay), and you purchased a rental property in 2024 through a **1031 like-kind exchange** and you did a cost seg as well. Your setup fees would be $\$125 + \$150 + \$250 = \525 .

You are new to WCG (more yay) and you have 2 existing rentals with 1 as an STR, and you acquired one of the rentals with a 1031 like kind exchange a few years ago. Your setup fees would be $\$125 \times 2 + \$350 = \$600$

You are new to WCG (we sense a theme!) and you have 3 existing rentals with 2 as STRs, and you did 1 cost segregation study today on a rental property that has been in service since 2022 (and therefore you also need a **Form 3115 Change in Accounting Method**). Your setup fee would be $\$375 + \$450 = \$825$.

Yes, we can offer some discounts or economies of scale.



Why Have Setup Fees?

Why do we have setup fees at all? We must ensure your prior depreciation is correct (especially if acquired with a 1031 exchange), all assets are correctly identified with original cost basis including acquisition costs, and loan amortization is properly recorded. We see a lot of junk out there which is not big deal until you want to sell the rental property, and minimize your tax pain.

Why do we charge extra for short-term rental setups? They are more intensive because there are more questions that need to be answered from us (and from you!), and we have to comb through furnishings and other boot up expenditures to ensure they are properly handled.

Why would I need a 3115 with a cost segregation study? If your rental property has already been in service and tax returns have been filed, then we need to request permission from the IRS to basically accelerate your depreciation on your current tax return. Alternatively we could amend your prior tax returns which is messy and expensive. Also, there is some tax arbitrage potentially if your income is higher today than it was when you first purchased your rental property. Lots to discuss here!

Why do we charge extra for a rental property acquired in a prior year 1031 like-kind exchange? We need to confirm that the

previous tax professional computed the exchange correctly since once we prepare the tax return, we own the data including prior data.

Rental Property Tax Return Preparation

Here are typical rental property tax prep fees that might be added to your individual tax return (Schedule E reported on Form 1040) or partnership tax return (Form 8825 reported on Form 1065). Base fees are \$800 for individual tax returns (Form 1040) and \$1,000 for partnership tax returns (Form 1065). Each tax return includes one rental activity. The following are add-ons-

Rental Tax Prep, Long-Term, Clean Records (The SRO Template)	100 ea
Rental Tax Prep, Short-Term Rental (STR Loophole)	150 ea
Rental Tax Prep, Complex or Messy Records	200 ea
Add On: Streamlined State Tax Return (in addition to your resident state)	125
Add On: Complex State Tax Return (requiring business or gross receipts filings)	200
Add On: Cost Seg + 3115	550
Add On: Rental Property Sale	250
Add On: 1031 Like-Kind Exchange and New Setup	500
Add On: Complex 1031 (2:1, 1:2) and New Setup(s)	750

Rental Tax Prep Examples (in addition to set up fees above)

You purchased a rental property in 2024 that is a short-term rental and you did a cost segregation study as well. Your recurring tax prep fees would be just the base fee since the first rental is included in our base fee.

You have 2 existing rentals with 1 as an STR, and you acquired one of the rentals with a 1031 like kind exchange a few years ago. Your books and records are impeccable. Your recurring tax prep fees would be base fee plus \$150.

You have 3 existing rentals with 2 as STRs. Your rental property records are incredibly tight and you use **our SRO template**, and therefore your recurring tax prep fees would be base fee plus \$150 + \$100.

You are a returning client to WCG (thank you) and you had a long-term rental from 3 years ago and you recently converted it to a short-term rental in 2024, and you also performed a cost segregation study so you need a **Form 3115 Change in Accounting Method**). Your tax prep fees would be just the base fee since the first rental is included in our base fee.

There are a million different examples, and Yes, some of this is based on the judgement such as clean records versus messy records (no, not you, of course not, right?). Please keep in mind that our base tax return preparation fee includes rental #1. Also, we will offer discounts for several rentals such as 6 or more.

State Tax Returns

You live in Colorado and have a rental property in California. You will need to file a California non-resident tax return even if the rental loses money. You have an income-generating asset in their state. Also, please consider that a taxing jurisdiction has the right to inspect your books and records to ensure your loss is truly a loss.

Keep in mind that some states and cities consider rental properties to be business ventures like any other, and more are focusing on short-term rentals as well. What makes things worse is that some taxing jurisdictions will impose an income tax based on gross rental receipts regardless if the activity is profitable. Yuck.

While we have your attention or perhaps even your interest, please read our **State Problems With Your Rental Property** section from our book "**I Just Got A Rental, What Do I Do?**"



Cost Segregation Study

How does all this black magic work? With a **cost segregation report**, or some say a cost segregation study, all the sticks, bricks and stuff inside are figuratively torn down and put into different piles. Some piles (5-year or 7-year) are eligible for accelerated depreciation, another pile would be a 15-year pile which varies a bit, and the remaining pile will revert to the 27.5- or 39.0-year typical residential or nonresidential commercial use depreciation.

Technically, and with full-on geek-speak, cost segregation separates property elements that are “dedicated, decorative or removable” from those that are “necessary and ordinary for operation and maintenance of the building.” These piles are called asset classes, and they are maintained separately within your property’s depreciation schedule.

From there, and with the help of bonus depreciation and in some cases Section 179 expensing, you compress the multiple years of depreciation into one. Yay!

Short-Term Rental Activities

If your average guest stay is 7 days or less and you **materially participate** in the activity (500 hours, 100 hours and more than anyone else, or substantially all hours) you likely qualify for the **short-term rental loophole**. Given the intricacies with STRs, and additional time and diligence spent, we commonly have an add-on fee for these types of rental properties. We are short-term rental experts.

Note: For those rental property owners on our **real estate Investor Patrol Services platform**, we waive the additional fee for short-term rental activities.

Short-Term Rental with Substantial Services

If you have a short-term rental similar to above, but provide substantial services then your rental activities are reported on Schedule C... read that again... Schedule C of your individual tax return and subjected to self-employment taxes. Yuck! What the heck are substantial services? According to **IRS Publication 527**, substantial services are-

If you provide substantial services that are primarily for your tenant’s convenience, such as regular cleaning, changing linen, or maid service, you report your rental income and expenses on Schedule C. Use Form 1065, U.S. Return of Partnership Income, if your rental activity is a partnership (including a partnership with your spouse unless it is a qualified joint venture). Substantial services don’t include the furnishing of heat and light, cleaning of public areas, trash collection, etc. For more information, see Pub. 334, Tax Guide for Small Business. Also, you may have to pay self-employment tax on your rental income using Schedule SE (Form 1040 or 1040-SR), Self-Employment Tax.

Think hotel or hunting lodge.

Real Estate Professional Status

Let’s quickly review the simplified basics of **real estate professional status**-

- You materially participate and provide personal service hours of 750 or more in real property trades or businesses, and
- Over half of your time spent on all activities where you perform a personal service must be spent on real property trades or businesses (this includes W-2 jobs and small businesses). If you work 2,080 hours as a 9-5er W-2 suit, you will need to work 2,081 hours in real estate. Sure, no one wears suits anymore, but you get it.

If you meet these two, you are what the Internal Revenue Code refers to as a qualifying taxpayer, or what the industry calls a real estate professional. But you are not done! The final step is to demonstrate **material participation** as a real estate professional in each of your rental activities.

We are also REPS experts.

Disposition or Sale of a Rental Property

When you sell your rental property, including a 1031 or 721 exchange (don't forget about Delaware Statutory Trusts), there will likely be an add-on fee of \$250 for a straight-up sale or \$500 to \$750 for a like-kind exchange. This is where the rubber hits the road in terms of capital gains, and we need to spend the extra time to ensure a) your purchase price is correctly being considered including acquisition costs, b) improvements are accounted for and c) selling expenses and other things are factored in.



Rental Property Tax Deductions

A lot of rental property owners miss out on tax deductions for not knowing how to position themselves correctly. For example, deducting travel expenses to and from your rental. Or the optimized way to deduct cell phones, mileage, and home offices. What about repairs and improvements? What about the minimis safe harbor from **IRS Notice 2015-82** which states that items \$2,500 or less are considered immediate rental deductions and do not have to be depreciated? How about the Small Taxpayer Safe Harbor for repairs that exceed \$2,500?

WCG CPAs & Advisors are real estate CPAs and we can help maximize your tax deductions. Check out our **rental property tax prep template**.

Rental Property Owned by Partnership

We encourage short-term rentals to be owned by partnerships (ie, a multi-member LLC). Why?

First, the historical audit rate of partnerships (Form 1065) is 0.4%. Super low compared to individual tax returns (Form 1040) which might be 4% to 12% depending on your income levels. Why does this matter? When you have a big cost segregation depreciation plus your big startup expenses such as furniture and supplies, and you then have a big tax deduction against your big W-2 income because your passive losses are no longer limited with your big material participation, it raises some eyebrows.

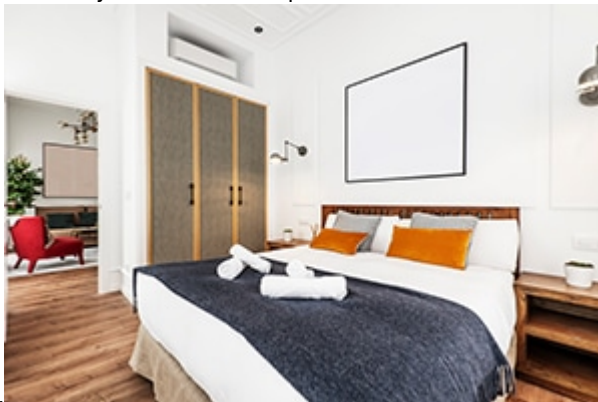
Second, with a **partnership tax return**, we can mechanically show your capital contribution (at-risk money) including recourse loan debt. Why does this matter? Let's say you invest \$250,000 into a new business, and that business loses money. The IRS sees your "partner basis," the \$250,000, within your 1040 tax return, and suddenly the \$100,000 first-year loss doesn't seem so out-of-whack. A short-term rental is certainly a business activity; sure, you might not have a profit right away, but you will make money someday (otherwise you wouldn't do it, right?).

Please visit our **business entity tax return preparation page** for fees associated with partnerships owning rentals.

Rental Property Bookkeeping

WCG specializes in real estate investors and as such we provide accounting services for rental properties. Rental properties are a

business like any other, and the proper tracking of revenue and more importantly the associated expenses are essential. The bookends to the varying service levels are your common single-family rental (SFR) home and that large commercial property with several tenants. That's the X axis. The Y axis becomes tax return complexity based on number of owners, number of activities (rentals) or both. There are many considerations; please click on the button below to learn more about our **rental**



property accounting services.

Vacation Rentals

Let's say you have a ski condo in Aspen and you use it from time to time, and you also rent it out to others. If your personal days exceed 14 days or 10% of the days it was rented to others at fair market rates, then you have to prorate your rental deductions and expenses based on rental use percentage.

$$\text{Rental Use \%} = \text{Days Rented} / (\text{Days Rented} + \text{Days Used Personally})$$

Ok, so you use the rental use percentage to limit your rental deductions. Now what? Can you create a loss? Perhaps. If the rental property activity triggers vacation rules, then No. Vacation rules apply when 1) the rental was rented for less than 140 days during the year, or 2) personal use days exceeds 10% of the rented days. Prorated rental deductions and expenses are limited to income (in other words you cannot have a rental loss). Here is a sample **Vacation Home Worksheet** from our tax software. Don't laugh, but here is **H&R Block's AirBNB Guide** which is very good at explaining all this.

If vacation rules do not apply, then you could have a net rental loss. Could? Yes, could. There is ordering rules where mortgage interest and property taxes are used first to offset rental income, and operating expenses and rental depreciation are applied next. If operating expenses and rental depreciation create a net rental loss, then that loss is carried forward.

We have to briefly mention the Bolton Method or what is also called the **Tax Court Method** (which WCG CPAs & Advisors uses). Before TCJA it was quite simple; if you itemized, then Bolton / Court Method was better. If you used the standard deduction, the IRS Method would be better. With TCJA, you must run both scenarios. **Bolton Method** is basically rental days divided by days in the year, whereas the IRS Method is rental days divided by number of days used for any purpose. The Bolton Method usually results in a lower percentage, and therefore a lower allocation of mortgage interest and property taxes to the rental activity.

The Masters Rule stems from **Internal Revenue Code Section 280A(g)**. It is a unique rule in which homeowners who rent out their property for 14 days or less in a tax year are not considered to be engaged in the activity for profit, and therefore do not have to claim the rental income. This property could still be considered a second home where mortgage interest and property taxes are still deductible. Yeah baby! They call it the Masters Rule from those who rent out their homes for the Masters Tournament in Augusta, Georgia.

Otherwise vacation rules do not apply, but your rental deductions and expenses are limited based on rental use percentage. The good news is that you can still have a net rental loss if those prorated rental deductions exceed the rental income.

State Problems With Your Rental Property

It is easy and common to overlook rental property and real estate investment nuances at the state level. Here are some random considerations-

Required to File Tax Returns with Tax Loss

Although your rental property has a tax loss, you are usually required to file a state tax return. Why? You have an income-producing asset in their state (taxing jurisdiction), and they have the right to inspect your books and records to ensure your reported tax obligation is as you say. Wow! We geeked out there.



Some States Do Not Recognize Accelerated Depreciation

California, for example, does not recognize bonus depreciation and has different limits for Section 179 expensing. This is another reason to prepare and file state tax returns for your rental property although it might have a federal tax loss. In other words, you could very easily have a tax loss on your Form 1040 individual tax return but have taxable income on your state tax return. Don't shoot the messenger.

State Capital Gains on Your Rental Property

The federal tax code has a separate graduated tax system for long-term capital gains, and it is either 0%, 15% or 20% plus the possible net investment income tax of 3.8%. We call this a preferential tax rate. This sounds wonderful. However, most states do not have a preferential tax rate for long-term capital gains.

Backup Withholdings by Property Managers

Who wants to pick on California some more? Excellent. If you own a rental property in California and you are not a California resident, your property manager is legally obligated to do what the accounting industry calls "backup withholding." Here is a **blurb from their website**—

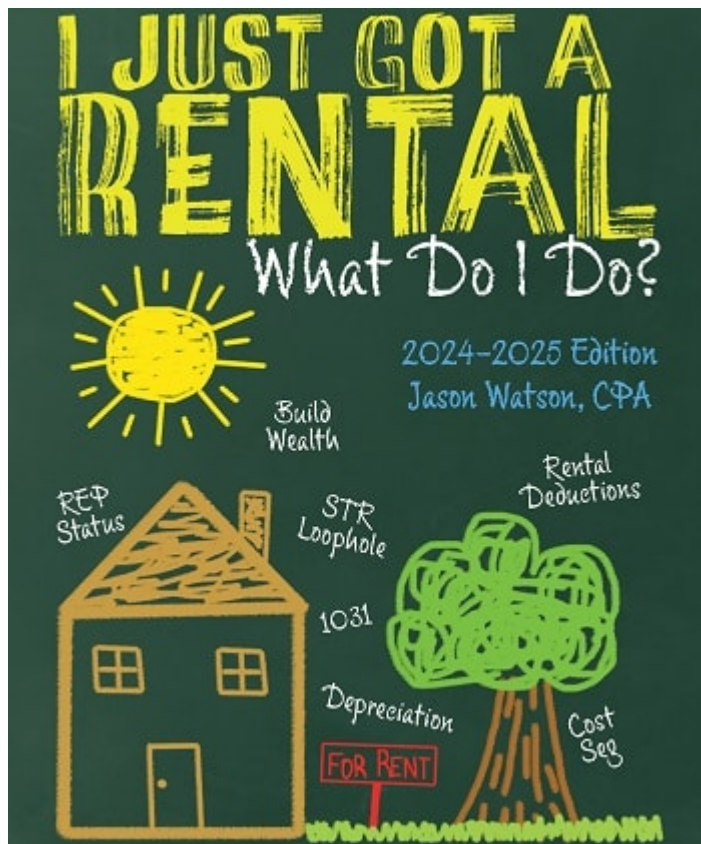
California law requires withholding of tax by persons having the control, receipt, custody, disposal, or payment of items of income, commonly termed "withhold at source." (Title 18 California Code of Regulations (CCR) section 18662-1(a)(1)). As a property manager providing services to nonresident property owners, including but not limited to renting, leasing, or collecting rent or lease payments on behalf of the nonresident owner, you are considered the withholding agent for California withholding purposes. As a withholding agent, you are required to withhold 7% on rent or lease payments to nonresidents when the total payments of California source income, excluding property management fees, exceed \$1,500 for the calendar year.

Doing Business in California

This section should be called California state return matters. We use California for a couple of reasons- first, they have aggressive tax law and second, a lot of states call it progressive tax law and adopt many of California's initiatives. Could you be

considered doing business in California with your non-California rental property? Yes! Here is a blurb directly and very much self-servingly from **California's Franchise Tax Board 3556 LLC MEO**–

Paul is a California resident and a member of a Nevada LLC. The Nevada LLC owns property in Nevada. The LLC hires a Nevada management company to collect rents and provide maintenance. Paul has the right to hire and fire the management company. He occasionally has telephone discussions from California with the management company in Nevada regarding the property. He is ultimately responsible for the property and oversees the management company. Paul conducts business in California on behalf of the LLC. The LLC must file Form 568.



I Just Got A Rental, What Do I Do?

I just got a rental, what do I do? Purchasing a rental property is certainly challenging, but operating one to build wealth and find tax efficiency is equally challenging. This is our second book. Our first book, Taxpayer's Comprehensive Guide to LLCs and S Corps, was first published in 2014 and was well-received by small business owners and tax professionals, so we thought a book on rental properties and real estate investments would be equally helpful. So, here we are with our first iteration, or the 2024-2025 edition. We plan to update annually.

Our rental property book starts with entity structures and moves into asset management such as acquisition, cost segregation, rental safe harbors, repairs versus improvements, accelerated depreciation, partial asset disposition, and 1031 like-kind exchange. From there we discuss various rental considerations like passive activity losses, short-term rental loophole, real estate professional status, and material participation including what time counts, and what time doesn't count.

Finally, the good stuff! Rental property tax deductions such as travel, meals, automobiles, interest tracing, home office and common expenses. Fun!

It is available in paperback for \$19.95 from **Amazon** and as an eBook for **Kindle** for 15.95. Our book is also available for

purchase as a PDF from **ClickBank** for \$12.95.

We Are Real Estate CPAs

WCG has a team of real estate CPAs ready to assist you with your rental property and real estate investments. Very few tax professionals and CPA firms specialize in real estate to provide you solid consultation, tax planning including tax reduction strategies, and tax return preparation. We are experts in-

- Entity Arrangements, Real Estate Holding Companies, Deal Structures
- Startup Expenses, Launching Your Real Estate Venture, Acquisition Costs
- Asset Setup On Your Tax Returns, Cost Segregation Studies
- Converting Your Primary Home Into a Rental
- Passive Activity Loss Limits
- Material Participation Rules, What Time Counts (and What Doesn't)
- Real Estate Professional Status (REPS)
- Short-Term Rental (STR) Loophole
- Vacation Home Rules, Bolton Method
- State Problems With Your Rental
- Travel, Meal, Automobile and Home Office Deductions
- Common Rental Property Deductions, Allocation of General Expenses Across Multiple Rentals
- Rental Property Repairs Safe Harbors, Improvements
- Accelerated Depreciation, Section 179 Expensing, Partial Asset Disposition
- 1031 Like-Kind Exchange, 721 Exchange
- Selling Your Rental Property, Buying Out Your Partner

This book is written with the general rental property in mind. Too many resources tell you the general rule but don't bother to back it up with Internal Revenue Code, Treasury Regulations and Tax Court cases. Our book lays it all out, explains the madness, adds some humor and various conundrums.

Enjoy! And please send us all comments, hang-ups and static. This book is as much yours as it is ours, except the tiny royalty part- that's ours. Stop by and we'll buy you a beer with the pennies.

How To Purchase

If you buy our 320-page book and think that we didn't help you understand rental property tax laws, let us know. We never want you to feel like you wasted your money. If you are ready to add some insightful reading into your day, click on one of the preferred formats. Amazon is processed by Amazon, and the PDF is safely processed by ClickBank who will email you the PDF as an attachment.



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Rental Depreciation

One of the most frequent questions from taxpayers is regarding rental property depreciation. Should you do it or no? Well, the IRS says it doesn't matter because of a little rule called allowed versus allowable. This little nugget basically says if depreciation was allowable, then it's considered taken (deducted). In other words, even if you do not take depreciate as a rental deduction, the IRS will assume you did. Yuck. What can be done if you haven't deducted rental property depreciation in the past?

We can usually true up under a Section 481(a) adjustment when combined with the more complicated Form 3115 (Change in Accounting Methods). Either way, we can help.

Do you depreciate your short-term rental? Perhaps.

Repairs Versus Improvements

Here are some common questions about rental property repairs (rental deductions) and improvements (rental depreciation).

- We repainted inside and out. Do I depreciate that?
- I'm re-carpeting the whole place. Do I expense that? I put carpet in just one room. Now what?
- The water heater busted and I replaced it. How does that work?
- My family flies to Tahoe every winter to ski, and I look at possible condos to buy while I'm there. Can I deduct my travel expenses?
- I drove back and forth to Home Depot a zillion times for a kitchen renovation. Can I deduct mileage?
- In between tenants, I bought four dishwashers for my quad-plex. Can I expense them, or must I depreciate them? (spoiler alert: you can immediately expense under safe harbor rules).

Deducting expenses and capitalizing improvements must be handled properly. There is an acronym that we and others use, either BAR or BRA... take your pick!

- B for **Betterment** such as adding a wing to the rental or finishing the basement,
- A for **Adaptations** such as remodeling a home to be an office space where the use is "new or different" since it's not consistent with the "intended ordinary use," or
- R for **Restoration** such as major repairs that returns the rental property to its "ordinary efficient operating condition."

Stapling a bunch of bras on the ceiling of a bar is probably not an improvement in the eyes of the IRS, but certainly something to giggle at. Another way of saying this is:

BAR = improvement, and improvement = depreciate (and not expensed as immediate rental deductions).

Wealth Building

Rental properties are lousy tax vehicles for two big reasons. First, if you make too much money (adjusted gross income over \$100,000 for married taxpayers), then your rental losses are slowly capped from \$25,000 at \$100,000 to \$0 at \$150,000. In other words, if your rental loses \$20,000, but your income is \$150,000, your rental loss deduction is zippo. Those losses do carry forward to future years, however. There are exceptions for **Real Estate Professionals** as defined by the IRS and those who have **short-term rentals** (average guest stay <7 days + material participation).

Second — and this is a bite you in the butt thing — most rental losses are created by depreciation. However, when you sell the property, you must add back depreciation into your gains calculations. This little surprise is known as depreciation recapture. Therefore, your rental deductions created in part by rental depreciation all these years were truly an IOU to the IRS upon sale.

All is not lost; you can perform a **1031 like-kind exchange**, or you can do a reverse 1031 which is where you buy the next property first and then less the relinquished property. This is tricky, but we can guide you. **721 exchanges or UPREIT** also exist too, and they are becoming more popular.

So why do people want to own a whole gaggle of rental properties if they stink at lowering your tax burden. Simple! Rental properties build wealth, and at the end of the day, wealth building is what your primary objective should be. If you can save some taxes along the way, then winner, winner, chicken dinner. But the prize is truly wealth building.

Real Estate Professional IRS Election

To qualify as a real estate professional, an individual must dedicate the majority of their time to real property businesses. These businesses include:

- Development or redevelopment
- Construction or reconstruction
- Acquisition or conversion
- Rental
- Management or operation
- Leasing and/or brokerage

In addition, more than half of the personal services performed in all businesses during the year must be performed in real estate businesses. So, if you have a garden variety W2 job working 2000 hours a year, you need to spend 2001 hours in real estate activities. Wait! There's more. Second, your hours worked in the real estate activity must be more than 750 hours. Steep thresholds.



If you own multiple rental properties each will be considered a separate entity and you must satisfy the above requirements on each property independently unless an election is made to treat all those interests as a single activity. This election is simply a statement that is attached to your tax return. And under Revenue Procedure 2010-13, you can make the election retroactively (typically requires amending a tax return just for the election).

Once you qualify as a real estate professional, you must **materially participate** in the operation of your rental property business. This is where it gets tricky, and this is where most rental property owners get into trouble. If you cannot prove material participation in your rental activities, you will be subjected to passive loss limitations (currently \$25,000).

Realtors and agents beware! Just because you spend 3,000 hours hauling around buyers doesn't mean you are a slam dunk for the real estate professional designation. Real estate agent DOES NOT automatically qualify you. The material participation rules must be met, and the 750 hours dedicated to your rental activity is outside your work as a real estate agent, realtor, broker, etc.

Also, and this is commonly missed by tax professionals, by being a Real Estate Professional, you can avoid the net investment income tax (NIIT). As such, if you have taxable rental income (profits), you might want to avoid this pesky 3.8% additional tax.

For more information directly related to the IRS definition of real estate professional and the tests for material participation please click on the button for a our updated blog post including tax court cases-

Rental Income Tax Rate

Landlords and property owners ask us often about their rental income tax rate. There is not a special rental income tax rate for rental activities. Rather, those income-producing activities are considered ordinary income and taxed accordingly. However, given what you know about short-term rentals where you provide substantial services you could also be subjected to self-employment taxes. Therefore, your rental income tax rate would be your ordinary income tax rate plus 15.3%. Yuck.

And, let's keep in mind capital gains taxes including depreciation recapture when you sell the rental property. Depreciation recapture is taxed at your ordinary income tax rate up to a maximum of 25%, and capital gains tax could be either 0%, 10%, 15% or 20% plus the net investment income tax of 3.8% should you trigger it. However, and this is commonly missed by tax professionals, by being a Real Estate Professional, you can avoid the net investment income tax (NIIT). As such, if you have taxable rental income (profits), you might want to avoid this pesky 3.8% additional tax.

Section 199A Rental Reduction

Section 199A offers a 20% deduction for small business owners, but are rental properties considered a trade or business? The answer is Yes on Section 199A rental income, but it took us some time to get here. In August 2018, the IRS released **Proposed Regulations 1.199A** to offer some additional insight to Section 199A, but nothing was clarified or confirmed about rental income.

The Treasury Department and the IRS held a public hearing on the proposed regulations on October 16, 2018, and they received 335 comments which can be reviewed in **Treasury Decision 107892-18**. Concurrently with final Section 199A regulations, the IRS released **Notice 2019-7** titled Section 199A Trade or Business Safe Harbor: Rental Real Estate.

Rental Deductions Consultants

Tina and Jason Watson, founding partners of WCG, have been rental property owners since 1996, and can offer comprehensive tax advice coupled with real-life rental property business consultation. Whether you own one rental property or several, single-family homes or multi-units, personally, in a self-directed IRA, or in an LLC with partners, WCG has the expertise to prepare your rental property tax returns accurately. We can also help reduce your rental income tax rate. Most importantly, we have the expertise to help you plan for the future!

Other questions come up, such as moving back into your rental. How do you handle rental depreciation recapture? Should I put my rentals into an LLC? What about **Hold Harmless Agreements** with my tenants? How is the current gain on personal residence sale of \$250,000 and \$500,000 handled with part years being a rental? These are all common questions, but each answer must be customized to your unique situation.

Considering a **Section 1031 exchange** to defer capital gains? Also known as like-kind exchanges. This can be a great plan, but needs guidance before, during and after. How about a reverse 1031 exchange? Yes! This is where you buy the replacement property prior to selling the relinquished property. This requires the help of an intermediary and a sharp attorney, but it is easily done in situations where a great deal comes along, but your timing is all out of whack.

There are some tricks of trade for reducing capital gains and depreciation recapture like increasing land allocation upon sale to eat into some recaptured depreciation since land is not depreciated but goes up in value. Location location location. This gets tricky and might involve an appraisal (hopefully you can get a copy from your buyer).

What about a second home that you purchased for grandma? Do you call that a rental and have her pay rent? Or is it better to call it a second home, and let grandma pay you in casseroles and babysitting? Again, these are all common scenarios, and we help present various options including how to position yourself to maximize your wealth building.

Let's chat about you, your rentals and how you can build wealth!JTVCd2NnLWNvbnRhY3QtdXMINUQ=Rental properties can offer excellent retirement and cash flow options, but the tax planning needs to be done ahead of time and not later. Our team at **WCG inc.** are rental property and real estate investor experts, and we look forward to working with you!