



Rental Income and Expenses Fact Sheet

As the owner of rental real property, it is important that you are aware of everything that is required to be reported as income so that you do not face underpayment tax penalties. It is equally important that you take advantage of all deductible expenses so that you do not overpay your taxes. This letter highlights some of the tax rules that apply to you as a landlord.

- 1) Any costs paid by a tenant on your behalf are considered income to you. However, these costs are also deductible as rental expenses.
- 2) Any property or service you receive in lieu of money is considered income. This income is based on the fair market value of the property or services received.
- 3) Lease payments with an option to buy are usually treated as rental income. If the tenant buys the property, payments received after the sale date are generally treated as part of the selling price.
- 4) Security deposits are not income if they are to be refunded at the end of a lease period. However, any funds withheld from a deposit are income in the year they are retained.
- 5) While the cost of repairs is currently deductible, including the cost of labor and materials, landlords cannot deduct the value of their own labor.
- 6) Improvements that add to the value of rental property or prolong its useful life may not be deducted as expenses. These improvements must be added to the value of the property and depreciated over time.
- 7) If you own rental property that you also use for personal use, you may be able to deduct the expenses on a proportional basis. You may use any reasonable method for calculating what portion of the property should be considered rental, for example, the square footage method.

If you rent property that you also use as a residence, such as a vacation home, special rules apply. If the property is rented for fewer than 15 days during the tax year, you are not required to include the rent you receive as income. However, you are also not permitted to deduct expenses associated with the rental.

However, if you rent such a property for more than 14 days during the tax year, deductible expenses must be calculated based on the number of days the property is used for each purpose. If you have any questions regarding the deductions to which you are entitled as a landlord, or if you are interested in discussing other ways in which to minimize your taxes, please feel free to contact our office at your earliest convenience.