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## What are the benefits of worksheet

The IRS allows you to take tax deductions for all legitimate costs associated with operating a rental property. If you own rentals, you can claim expenses in 12 categories that span everything from interest, to insurance, repairs, and depreciation. However, you must record them, according to IRS guidelines. To meet your tax and accounting needs, it is important to have access to the right tools. You can check out our list of tax software reviews to find the best one for you. - In a hurry? Wish you could download a free spreadsheet to make sense of rent property tax deductions? No problem. Download Your Free Rent Property Tax Deduction Worksheet In this article we will discuss some of the tax benefits of rental properties. We will break down each category to help you know which questions to ask your accountant. Keeping track of the below items can save you great at tax time. To learn more about real estate investing, read our beginner real estate investing guide. There are 12 types of property tax rental deductions and benefits. 1. Depreciation write-off is a rental property tax deduction for the hypothetical wear and tear on your building as if it were an expense. Although you may not encounter costs to cover actual maintenance costs, accounting policies allow you to take advantage of any costs through depreciation. Determining what the depreciation figure is – and keeping accurate records over time – is vital, and you should turn to your certified public account (CPA) or tax-eligible account for help. Generally, you can write off your rental value minus the cost of land evenly over 27.5 years, known as straight-line depreciation. Depreciation Example for rental property We will illustrate a straight line depreciation example that refers to a rental property. Let's assume the following: The total value of the land and the building is \$300,000 land valued at \$150,000 depreciation timeframe according to the IRS is 27.5 years the property is classified as a residential property. Some parts of commercial property improvements can be written off over 15 years. To calculate the depreciation, subtract the land value from the land and building value. Then you divide the building value by 27.5 years to get the amount of the annual depreciation.  $\$300,000 - \$150,000 = \$150,000$   $\$150,000 / 27.5 = \$5,454.54$  depreciation per year \$5,454.54 is the annual amount you can deduct when filing your rental property taxes. You will do this each year to assess the current home value and associated annual depreciation. The depreciation deduction allows a taxpayer to deduct part of the cost of property purchased to produce income as part of a business. From a tax perspective, depreciation of real estate is sometimes described as a phantom cost because property can increase in value while taxpayers take the depreciation deduction. — David Reiss, Professor of Law, Academic Program Director, CUBE, The Center for Urban Business Entrepreneurship 2. Mortgage Interest Payments Interest on a rental property can take several forms and can be one of a landlord's largest rental property tax benefits. Mortgage interest, points, loan origination fees, interest on lines of credit and, in some cases, interest from credit cards used for property-related costs, can all be deductible. When you make a loan payment on your rental property, there are two components to that payment. There is a part that goes to the principal and some goes to an interest expense. You can see this by looking at your monthly statement. Unfortunately, you cannot deduct the main part of your payment. However, you can deduct the interest component. For example, let's say you have a mortgage or other loan associated with the property with a monthly payment of \$1000. Let's assume \$200 is applied to the principal, which means that \$800 is interest. Only \$800 is deductible as a cost. Multiply this interest rate by 12, and you'll find your annual interest deduction of \$9,600. You can keep track of mortgage interest paid, with property management software. Mortgage Interest Because the main loans on a rental property are likely mortgages, this is the first interest rate to consider. You can also deduct loan points as a form of prepaid interest. In the run-up to the 2018 tax cuts and the jobs law, you can deduct interest on home equity credits (HELOC), but now there are restrictions. Points & Loan Origination Fees When you received financing for your rental property, you probably paid loan origination fees and/or points. Both of these are deductible and can be treated as forms of interest. However, your installment is not deductible. Interest on unsecured loans for the property if you have received financing in the form of an unsecured loan, which is specifically used for a particular property, this interest may also be deductible. For example, you might have an unsecured loan for the exchange of a cap, that the interest rate can be deductible. This is an area where you may want to hire the services of your accountant because deducting for unsecured loans can be tricky – especially if the proceeds were spent on more than one property or certain amounts used personally. Proper accounting is crucial. Interest on credit cards used for the property You may also have used a credit card for the property and incurred some interest. An example is using a credit card to buy a refrigerator for your rental property and pay for it for several months, resulting in interest charges. The interest derived from this purchase would be deductible. Similar to the situation with unsecured loans, involve your tax professional or CPA if you are to deduct credit card interest because it can be difficult to track properly. If you want more information about business credit cards, how they work and who they are right for, then check out our guide to the best small business credit cards of 2018. 3. Fees & Tax Benefits of Rental Property Property Investors receive property tax deductions — deduction of related costs is definitely one of them. Property taxes, licence fees and occupancy taxes are three of the most common forms of taxation for rental properties, and they are also deductible. You need to report expenses allocated to the rental property on a schedule E. We will now discuss property taxes, license fees and other property rental taxes. Property tax Virtually every county or municipality in the country charges property taxes. In the countryside, the amount can be small, maybe only a few hundred dollars. In some markets, property tax can be quite high, sometimes up to six figures per year. Rental properties are usually taxed at a higher rate than primary dwellings. You can find your rental property rate at your county office assessor or recorder. Sometimes these offices have slightly different names, but you can Google your county and find property tax information on their site as well as a contact phone number. If you have a mortgage on the property, your lender will send you a blocked summary showing property tax paid as well. License fees Many states have licensing requirements for rental properties. This refers to a license specifically for the property, not to be confused with a business license for your real estate business, which may be deductible. If you have had to acquire or renew a landlord or similar license for the property, that cost is deductible. Some municipalities require a holiday rental license for short-term rentals, which typically cost around \$1,200 the first year and around \$600 in the following years, depending on the property area and the number of bedrooms. For further information on short term rentals, check out our guide to buying a holiday home property. Occupancy Tax Deduction Some states levied occupancy taxes on rental amounts, similar to VAT. This is particularly the case in states where short-term rentals are common. Examples are Florida, which charges a tourist tax for rents less than seven months and several areas throughout Arizona. If you are required to pay a tax on the amount of the rent, this cost is deductible. These taxes vary by state and, sometimes, vary by city, county, or even municipality. 4. Insurance Any form of insurance is considered to be an expense, hence the tax deductible for the rental building. This includes basic danger insurance and special insurance hazards like flood or hurricane coverage as well as liability insurance. Typical types of rental property insurance include: Liability Hazard and fire insurance Sewer backup insurance which can be added to your hazard policy Flood insurance which covers water coming from any source outside the home and is required by most mortgage companies Loss of income insurance which can be added to your hazard policy and will cover you in the case of lost rental income Insurance specifically for a rental property is generally 15% to 20% more than a policy for an owner-occupied policy. The average annual premium on landlord insurance is about \$822. This varies, depending on the size, cost and location of the rental property. For more information, read our article about landlord insurance. Deducting umbrella liability policy for rental properties If you have other forms of insurance such as a landlord liability insurance or umbrella liability insurance covering multiple properties, you will want to seek the advice of your tax professional or CPA to determine how it should be deducted. One option is to prorate the cost among each property; another possibility may be to deduct it from the overall business unit. 5. Utilities If you have to pay for any tools - gas, electric or water - they are a deductible expense. If you pay for private refuse collection and/or recycling service, they can be lumped together with tools. In addition, if you pay for communication services like internet or cable/satellite TV for your rentals, these costs are also deductible as a utility expense. Deductions for various common tools can be requested on: Heating Bills Electricity Air Conditioning Water Sewer Trash & Recycling Internet, TV & Telephone Services There are a couple of points worth noting when it comes to tools. All costs of utility costs are deductible, but the landlord must register a compensation, if any, from the tenant as income. — Brian J. Thompson, CPA & Real Estate Attorney, Brian Thompson Law 6. Maintenance & Repair Costs to maintain, care for and improve the property are deductible. However, there is a difference between how things like cleaning, maintenance and repair are deducted compared to how improvements are handled. Cleaning, maintenance & repair These goods are considered normal, ongoing objects in the operation of the property. They are deductible as normal operating costs. An example of maintenance may be to replace some shingles lost to a storm. Normal wear on a property can include replacing worn carpet or repainting rooms with bleached paint from sunlight exposure. Improvements Improvements are considered long-term benefits for the property and are written off over several years. Some items can be written off over five years, others as long as 27.5 years. Using the ceiling example from above, if it is the entire ceiling is replaced, which is considered a capital improvement and must be written off over 27.5 years. Since the roof has been written off, you cannot the full cost in one year. Instead, you would spread the cost out over 27.5 years. So, if the cap was \$15,000, you should deduct the same amount each year, according to the IRS, in the straight line depreciation method. This means you would deduct \$545.45 each year for 27.5 years. With improvements, it's important to involve your CPA or tax professional. It is important to classify and calculate things correctly, and accounting responsibility is rigorous. 7. Advertising & Marketing There are two main sources of marketing deductions for a rental property. They include advertising to find tenants to rent the property and leasing-up commissions to pay real estate agents or property managers to rent out the property. Both of these can be deductible. For more information about marketing, read our article on how to rent a house. Advertising Any amount you spend to advertise your building, its availability to tenants, or for anything else related to the property like trying to find an on-site manager or contractor are all deductible as normal operating costs. This includes fees or subscriptions for sites like Zillow where you can list your property for rent. Tenant Placement & Lease-up Commissions An often overlooked marketing cost is the commission paid to a real estate agent or property management to either secure a new tenant or renew their lease. Since this is often a month's rent or more, it's a significant cost well worth recording. 8. Homeowners Association Fees If your rental property is located in a community that charges some kind of homeowners association (HOA) fees, condo fees, planned unit development (PUD) fees, and so on, these are deductible costs. The IRS then considers it necessary to maintain the property. HOA fees vary by location, including amenities and size of the device, but the average HOA fees for a single-family home are \$200 to \$300 per month. In addition, you may be able to deduct records required by your HOA. For example, some HOAs require expensive for rental signs that meet certain specifications. These sign costs would generally be deductible. 9. Auto & Travel Travel-related tax benefits of rental properties are generally categorized in two ways: car-related travel expenses and other travel-related expenses. You can deduct the necessary expenses to travel as long as the primary purpose of the trip relates to your rental property. Auto Spending Business use of your car for your rental properties is deductible. If you have to drive to a property to view it, deal with repairs, or otherwise visit the property for a legitimate operational purpose, the mileage is deductible. Auto expenses can be deducted using the standard mileage method or actual method. For 2019, the IRS put interest rate at 58 cents mile for business. The actual method uses uses of all actual vehicle expenses used for business purposes. Both require you to keep the necessary records. To learn more information about mileage deductions, read our guide on standard mileage deductions. There are also apps for smartphones that make keeping records very easy and convenient. You don't have to write it down or wait until you're in front of your computer to record your mileage. Instead, you can download the app on your smartphone and keep track of your mileage on the go. To learn more about these handy smartphone apps check out our guide on the best mileage tracking apps. In addition, you may have investment mileage not attributable to individual properties, but, to the business overall, which may also be deductible. Any business-related mileage like going to the office delivery store or post office is deductible if properly documented. Rental property tax Deduction for other travel expenses Apart from using your car, other travel expenses associated with your rental property may be partially or completely deductible. For example, if you fly to a property in another state to clear out the building between tenants, it is legitimately business-related. The flight would be deductible as would hotel stays meals, rental cars, parking and tolls. However, only the business part of the trip is deductible; you have to prorate that part, which is clearly business vs it that isn't. In the above example, if you stayed a week, but only processed the property for two days, you can not deduct all seven days worth of meals or hotel costs. To learn more about proper travel expenses deductions check out our guide on deductions for travel and entertainment expenses. 10. Deliveries The supplies category is somewhat a miscellaneous one that can include everything from hardware to office supplies. Many supplies will be used directly on a particular property and deductible to the property itself. An example could be driveway sealant if the can was used on just one property. Other deliveries may apply to several or all of your properties and deductible for the business as a whole. An example might be computer printer paper, which cannot be allocated to a single property but is used for everything related to the business. Typical supplies related to your rental property include: Printer ink, which can be expensive on an average of \$13 per ounce Printer paper, folders, binders and receipt books to stay organized maintenance supplies such as paint, filler, primer, and brushes Cleaning supplies like buckets, mops, vacuum cleaners, and cleaning solutions Building materials like sheet coat, nuts, bolts, and including plywood locks and keys, which can add up if you change them after each tenancy; locksmiths often charge upwards of \$125 to lock 11. Property Management Property Management can be carried out in several ways. You can be it itself, engage a property management company, or hire a property manager. Each is handled differently from a tax point of view. Property management fees generally range from 7% to 20% of gross monthly rental income depending on the type of property. Tax benefits of rental properties You manage yourself Whether you can deduct any of your personal management depends on how you have structured your business. If your properties are owned by you personally as a sole proprietorship, it is difficult to deduct the cost of your own management. The better you underpin your active management, the more likely you will be able to demonstrate your active engagement. If you have an entity like an LLC or corporation, there may be the possibility that the company hires you as a property manager, which means that your salary will be a deductible expense. In that case, you can deduct property management software for things like marketing your property and tenant screening. Tax Deductions If you engage a Property Management Firm Fees that you pay to a property management company for its services are deductible. However, be aware that things like commissions for tenant placement should be noted as marketing and not management. Tax deductions If you hire a Property Manager Property Investor with large multi-unit properties or apartment buildings will often hire on-site property managers. Salaries and any benefits paid to these managers are fully deductible rental property costs. 12. Legal & Professional Fees Professional services such as accounting and legal work are deductible expenses. Generally, these will be applied in total to your real estate investment business. However, if there is work that is clearly applicable to certain properties, then the expenses are deductible for the properties themselves. These professionals are often able to identify additional tax benefits of rental properties for investors. Some examples of professional and legal fees may include: Legal work to prepare the LLC entity Legal Review or Drafting of Lease Records Accounting Services Tax filing preparation Tax benefits of rental properties — Beyond The Basics In addition to the basic tax deductions for rental properties, there are other tax issues worth noting. They are related to rental property losses, FICA, or self-employment tax, capital gains, and what is called depreciation recoup. Loss Restrictions Properties that show a loss offer the most tax benefit, although you should be aware of two things. First, losses are limited to \$25,000 in any year, although you may be bringing over any excess losses in coming years. Secondly, any tax savings resulting from a or any other business loss only end up part of what was consumed. FICA & Self-employment Tax Benefits One of the biggest withholdings you have in your paycheck is for Social Security, known as FICA; if you are is you know this as self-employment tax. Depending on how your business unit is structured and what the financial situation of the properties looks like, you may be able to avoid paying some or all of the FICORA or self-employment tax. Depending on the situation, that can save you from about 7.5% to upwards of 15.3% of the profits derived from the properties. For more information about FICA, check out our helpful FICA guide. Capital gains taxes vs taxes on ordinary income If you sell a property at a profit, chances are you will be taxed on that profit. If you sell after owning it for more than a year, it will likely be capital gains tax, not ordinary income tax. But if you sell the property within a year of buying it, you are usually taxed at your usual rate. Currently, capital gains tax rates run from 0% to 20%. That's compared to income taxes ranging from 10% to 37%, so it's a significant tax savings. For more information on taxes specific to turn houses, read our guide to house flipping taxes. By investing in real estate in an appreciative marketing, you get the benefit of compound growth over time without having to pay tax as-you-go on your profits. When you do eventually sell, there are some additional strategies to defer tax, or you can choose to take your profits and pay tax on the preferential capital gains tax rates. — Steven E. Clem, CPA, Clem Collaborative Depreciation Recapture Unfortunately, depreciation is a bit of a double-edged sword. At the beginning of ownership, depreciation gave a tax benefit. But when you sell, it creates a taxable amount through what is called depreciation recapture. In short, some of the depreciation you have taken over the years will be taxed as part of the profit on the sale. What is important to note here is that most investors are not even aware of depreciation recouping, but it can exert a large tax bite on the sale. That's one of the main reasons to have a tax adviser or CPA manage the tax strategy for your rental properties. Special tax situations involving investment properties There are many specific tax situations worth learning about. While they may not end up part of your investment landscape, knowing if they can give you access to even more rental property tax deductions. Rent Property Tax Deduction of owning holiday home If you have a second home or holiday property that you sometimes rent out, report it as a rental property for the time you lease it. That means you might be able to write off things like advertising, rent commissions, part of the insurance, prorated repairs, and so on. It will help offset the income generated by rents and may mean a fairly hefty tax deduction at the end of Keep in mind that from 2018, the limit for maximum interest deduction on holiday homes is holiday homes primary housing is \$750,000. A holiday property is generally considered a rental property if it is rented more than 14 days a year. This is another area that can be tricky when calculating deductions, so it's best to consult with your tax expert to get the most tax benefits out of rental properties. Historical tax breaks If your property is a qualified historical property, you may be entitled to take a historical tax break. Historical tax breaks exist at the federal level, and many states like Ohio and Massachusetts also have programs. These may apply both to the renovation of the building and/or to its operation as a rental. Tax breaks are a little different than tax deductions. While tax deductions come back to you as part of the effect of expenses, tax credits are dollar by dollar. In other words, spend \$1 on renovations, get \$1 reduction in the taxes to be paid. State or local tax incentives In addition to historical tax breaks, your state or municipality may have economic development tax breaks for buying, fixing up and operating property in lower-income areas like this example of Detroit. Governments are using economic development tax breaks to encourage people to buy in these areas so that they will eventually improve. A big mistake is simply failing to keep good documents. It seems elementary, but the first thing we do when we board a customer is to educate them on how to keep good records. We can give you all the tax strategies in the world, but if you can't maintain good records, our strategies will be meaningless during an audit. — Brandon Hall, Founder & CEO, The Real Estate CPA 3 Types of property ownership that affect the tax benefits The business structure you choose for your rental properties will affect what deductions you can take and how you approach them. These deductions vary if you have your characteristics as a sole proprietorship, partnership or corporate entity. Read more about starting a real estate holding company. The three types of property ownership that affect tax benefits include: Sole Proprietorship Partnership Corporate Unit In particular, there are tax deductions directly linked to the rental properties themselves. These are called Schedule E deductions. There are others that can be attributed to an overall activity that runs the investment business, so-called schedule C deductions. The type of business unit you choose will control, to a large extent, how much of the latter type of deduction you can take. Since the 2018 Tax Cuts & Jobs Act was established, each of the three entities is now entitled to a new throughput deduction as long as the rental business is counted as a tax purpose. You will be able to deduct 20% of your net rental income. Basically, you will pay tax on 80% of your net rental income, instead of 100%. This can get complicated if you have or if your annual taxable income exceeds \$415,000 for married couples filing jointly. Frequently asked questions about rental tax deductions & benefits Hopefully, this guide answers your questions about tax benefits and deductions when it comes to rental properties. If not, here are some common questions that we've encountered. 1. Can you write off property tax in 2019? The IRS says you can deduct local and state property taxes as long as you paid the tax in 2018. However, if you were assessed the tax but did not pay the bill until 2019, you will not be able to use the cost as a deduction until the following year. 2. Is the purchase of rental properties Tax deductible? The purchase price of a rental property in itself is not tax deductible. However, a few of the costs associated with the purchase may be. For example, prepaid interest, loan points, and property taxes are eligible deductions. Also, you will be able to start your depreciation deduction after purchase. 3. Is Painting a Rental Property Deductible? Painting your rental property both on the interior and the exterior is a deductible expense as it is necessary to keep the property in good condition. In some cases, painting can be considered an improvement and would need to be written off. For example, if you paint an extension and increase the property value. 4. Can I write off Lost Rental Income? Rental losses can be written off as long as you have passive income. Passive income is generally earned from other rental properties or from companies where you do not participate actively. You can't make up for the loss with income from your salary. If you do not have passive income, you can pass on your losses until you have passive income or sell the property. 5. Are Appliances for Rental Properties Tax Deductible? Purchase appliances are a rental property deduction and are usually taken as an improvement and written off for several years, not during the year the appliance was purchased. However, since the new IRS Rules Section 179 was implemented in 2018, many entrepreneurs are pulling the full amount during the year purchased. 6. Can You Deduct Mortgage From Rental Income? One of the best tax benefits of rental properties is the interest tax deduction. In addition, investors can deduct the property tax and property insurance that may be part of the mortgage payment. However, the entire mortgage payment includes capital reduction, which is not deductible. Bottom Line Property Investors have access to an abundance of rent property tax deductions. Depending on how you hold the properties, you may be able to deduct expenses that are directly related to running the properties along with deducting expenses related to the overall business entity. The tax legislation for rental properties is complex, and it is advisable to use a tax professional or CPA. Download Your Rent tax deduction worksheet