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2020 TAX CONVERSATION FOR LANDLORDS

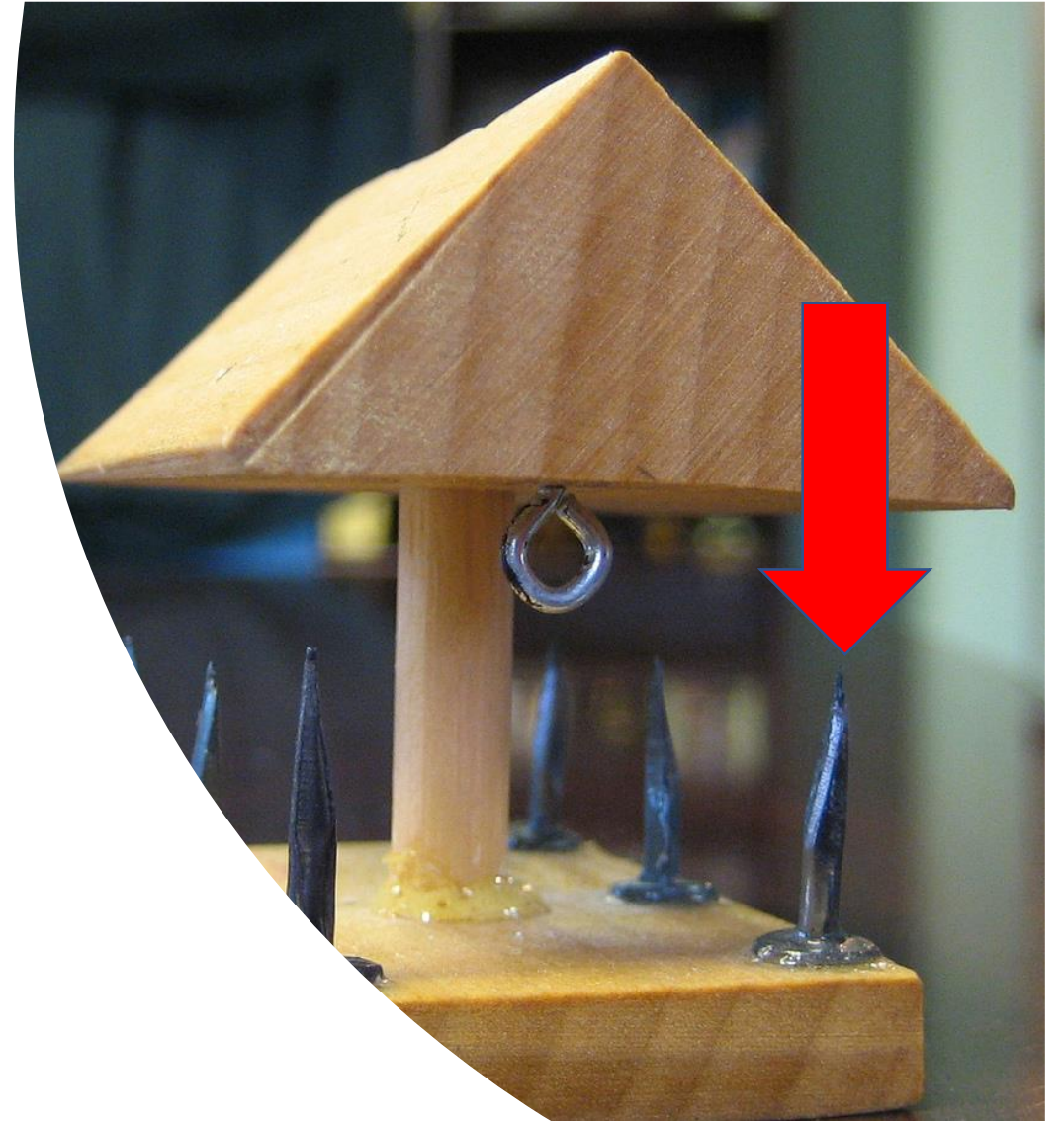
WHAT WE WILL COVER

- JOKES
- AUDITS
- EXTENSIONS
- SAFE HARBOR FOR THE QBI (QUALIFIED BUSINESS INCOME) DEDUCTION
- DEPRECIATION
- COMMON MISTAKES LANDLORDS MAKE

JOKES -

Where do homeless accountants live?

*In a Tax Shelter
(TACKS)*



AUDITS

- MOST COMMON – CORRESPONDENCE AUDITS (75%)
- FACE TO FACE – CASH INTENSIVE BUSINESSES
- YOUR CHANCES – LESS THAN .6%....UNLESS YOU HIT THE DIF
 - (DISCRIMINANT INFORMATION FUNCTION LOTTERY BUTTON)
 - YOU ONLY USE ZEROS OR FIVES IN YOUR NUMBERS
 - YOUR REPORTED INCOME DOES NOT SUPPORT YOUR LIFE STYLE
 - YOU MAKE OVER \$500,000 PER YEAR
 - YOUR CHARITY DONATIONS ARE HUMONGOUS
 - YOU DON'T FILE

EXTENSIONS – GOOD OR BAD?

- GOOD – FIRST RANDOM AUDIT (UNDER THE DIF) IS FOR RETURNS FILED BY MAY 15TH
- AFTER MAY 30TH, YOU CAN REQUEST A WAGE AND INCOME DOCUMENTS SCHEDULE TO SEE WHAT WAS REPORTED UNDER YOUR SOCIAL SECURITY NUMBER
- THIS IS A GREAT WAY TO MATCH THINGS UP
- YOU MUST STILL PAY THE TAX YOU OWE BY APRIL 15TH, PLUS NEXT YEAR'S ESTIMATES

SAFE HARBOR FOR RENTAL REAL ESTATE

- SEE HANDOUT
- 250 HOUR REQUIREMENT TO ACTIVELY MANAGE THE RENTAL
- TREAT IT LIKE A BUSINESS
 - SEPARATE CHECKING ACCOUNT
 - ISSUE 1099S ETC
- INVESTOR HOURS DO NOT COUNT
- NOT RECOMMENDED IF YOU HAVE OTHER QBI BUSINESSES
- NOT APPLICABLE TO REAL ESTATE PROFESSIONALS

More Jokes

What's the Difference Between an Accountant and a Lawyer?

The accountant knows he's boring.

How Can You Tell You've Found a Good Tax Accountant?

He has a loophole named after him.

If an accountant's spouse can't get to sleep, what does she/he do?

Leans over to the spouse and says "Tell me about work today, honey."



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DEPRECIATION

- SECTION 179
- PERSONAL PROPERTY USED IN A RENTAL – NO, WELL, MAYBE
- VEHICLES (ASSUMING 100% BUSINESS USE)
 - \$25,500 IF OVER 6,000 LBS
 - UNDER 6,000, NO SECTION 179, BUT YOU GET \$18,100 IN A DEDUCTION
 - ASSUME A COST OF \$50,000. GET \$18,100
 - ASSUME A COST OF \$25,000. GET \$18,100
 - ASSUME A COST OF \$15,000. GET \$15,000

BONUS DEPRECIATION

- NOW 100% OF THE COST OF PERSONAL PROPERTY
- STILL AN ADDBACK FOR STATE— 85% OF THE DEDUCTION TAKEN
- DO NOT TAKE ACCERATED DEPRECIATION METHODS IF THERE IS NO TAX BENEFIT
- FIGURE FUTURE YEARS AS WELL
- SEE EXAMPLE LATER

COMPONENTIZED DEPRECIATION

- BREAKING DOWN THE PROPERTY IN THE YEAR OF PURCHASE
- BY ITS COMPONENTS
- THIS ACCELERATES DEPRECIATION BY USING SHORTER LIFES FOR SOME OF THE COMPONENTS
- ALSO ALLOWS FOR THE REMAINING WRITE OFF OF DEPRECIATION IN THE YEAR OF DISPOSITION
- ROOF

REPAIRS AND MAINTENANCE ELECTION

- MAKE THE ELECTION AND FILE IT WITH YOUR RETURN
- FOR IMPROVEMENT OR ITEMS THAT WOULD NORMALLY BE CAPITALIZED (SAY, YOUR THRESHOLD IS \$500)
- USE WHEN THE COST IS UP TO \$2,500 PER ITEM
- HAVE YOUR EXPENSE POLICY IN PLACE AND FOLLOW IT
- “THE TAXPAYER HEREBY MAKES THE DEMINIMIS SAFE HARBOR ELECTION UNDER REGULATION 1.263 (A)-1(F)”
 - YOUR NAME, SSN, AND ADDRESS

COMMON MISTAKES LANDLORDS MAKE

- NO SEPARATE CHECKING ACCOUNT FOR EACH LLC
- JOINT VENTURE VERSES SMLLC VERSES PARTNERSHIP
- TOO MUCH MILEAGE (EG LOOKING FOR PROPERTY)
- LEARN TO BURY SOME COSTS “OFFICE EXPENSE”
- TAKING 100% OF THEIR CELL PHONE, OFFICE INTERNET
- DOING SOME WORK IF PROPERTY IS HELD INSIDE THEIR IRA
- PAYING TOO MUCH FOR REAL ESTATE COURSES

LAST JOKE



"Yes, I know
what all the
comps say,
but my house
is **SPECIAL**."

Questions?

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THANK YOU



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SAFE HARBOR TEST FOR RENTAL REAL ESTATE TRADE OR BUSINESS
FOR PURPOSES OF CLAIMING THE QUALIFIED BUSINESS INCOME DEDUCTION

SAFE HARBOR TEST

- (A) Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise;
- (B) For taxable years beginning prior to January 1, 2023, 250 or more hours of rental services (explained below) are performed (as described in this revenue procedure) per year with respect to the rental enterprise; and
- (C) The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following:
 - Hours of all services performed
 - Description of all services performed
 - Dates on which such services were performed
 - Who performed the services

A rental real estate enterprise can be each property, whereas you need to fulfill the 250 hours per property. Or you can elect to treat 2 or more as an enterprise and the 250 hour test applies to those combined.

Such records are to be made available for inspection at the request of the IRS.

RENTAL SERVICES

Rental services for purpose of this revenue procedure include:

- (i) Advertising to rent or lease the real estate
- (ii) Negotiating and executing leases
- (iii) Verifying information contained in prospective tenant applications
- (iv) Collection of rent
- (v) Daily operation, maintenance, and repair of the property
- (vi) Management of the real estate
- (vii) Purchase of materials; and (viii) supervision of employees and independent contractors.

Rental services may be performed by owners or by employees, agents, and/or independent contractors of the owners.

It is important to note that hours spent by an owner or any other person with respect to the owner's capacity as an investor are not considered to be hours of service with respect to the enterprise.

The term rental services does not include financial or investment management activities such as:

- (i) Arranging financing
- (ii) Procuring property
- (iii) Studying and reviewing financial statements or reports on operations
- (iv) Planning, managing, or constructing long-term capital improvements
- (v) Hours spent traveling to and from the real estate.

Section 199A Rental Real Estate Safe Harbor Statement

Entity Name:

Entity ID Number:

Description of Property:

Tax Year:

This statement confirms that all requirements for the safe harbor per IRS Notice 2019-07 have been satisfied to claim this rental real estate for the Qualified Business Income (QBI) deduction.

Specifically I affirm all of the below:

- Separate books and records are maintained to reflect income and expenses for each rental property
- 250 or more hours of rental services were performed with respect to the rental enterprise
- The property was not used as a residence for any part of the year
- The property was not rented or leased under a triple net lease

Under penalties of perjury, I (we) declare that I (we) have examined the statement, and, to the best of my (our) knowledge and belief, the statement contains all the relevant facts relating to the revenue procedure, and such facts are true, correct, and complete.

Name

Date

Printed Name

Title

TAX EXAMPLES

FACTS:

MFJ	EXAMPLE ONE
2 KIDS	
W-2 INCOME	100,000
STD DEDUCTION	
RENTAL LOSS	0
AGI	100000
TAX AFTER CREDITS	4687

MFJ	EXAMPLE FIVE
2 KIDS	
W-2 INCOME	125,000
STD DEDUCTION	
RENTAL LOSS	25000
LIMITED	12500
AGI	112500
TAX AFTER CREDITS	7105

MFJ	EXAMPLE SEVEN
2 KIDS	
W-2 INCOME	150,000
STD DEDUCTION	
RENTAL LOSS	25000
LIMITED	0
AGI	15000
TAX AFTER CREDITS	15349

MFJ	EXAMPLE TWO
2 KIDS	
W-2 INCOME	100,000
STD DEDUCTION	
RENTAL LOSS	25000
AGI	75000
TAX AFTER CREDITS	1689
SAVES ABOUT \$3000	

MFJ	EXAMPLE SIX
2 KIDS	
W-2 INCOME	125,000
STD DEDUCTION	
RENTAL LOSS	5000
UNLIMITED	
AGI	120000
TAX AFTER CREDITS	8755

NO RENTAL LOSS
\$20000 BONUS DEPRECIATION
ADD BACK OF \$978
NO BENEFIT

MFJ	EXAMPLE THREE
2 KIDS	
W-2 INCOME	75,000
STD DEDUCTION	
RENTAL LOSS	25000
AGI	50000
TAX REFUND	-1513

CREATED A RENTAL LOSS OF \$25,000
THROUGH BONUS DEPRECIATION
FEDERAL TAX BENEFIT WAS \$1650
STATE TAX ADD BACK \$978
NET BENEFIT WAS ONLY \$672

MFJ	EXAMPLE FOUR
2 KIDS	
W-2 INCOME	75,000
CAPITAL GAIN	10000
STD DEDUCTION	
RENTAL LOSS	25000
AGI	50000
TAX REFUND	-1513

COMPONENTIZED DEPRECIATION BREAKOUT FORM

PROPERTY NAME 123 Promissory Lane

DATE OF PURCHASE June 1, 2019

TOTAL PURCHASE PRICE:

	AMOUNT
PURCHASE PRICE FROM CLOSING DOCUMENT	100000
CLOSING COSTS EXCLUDING UNRELATED ITEMS SUCH AS SECURITY DEPOSITS, TAXES, ESCROW DEPOSITS ETC	2000
OTHER: LEGAL/ACCT FEES ASSOCIATED WITH THE PURCHASE	2000
INSPECTION REPORTS/APPRAISALS	
PRE PURCHASE COSTS - MILEAGE, ETC	
LOAN ORIGATION FEES, ETC	
OTHER	
TOTAL AMOUNT - PURCHASE PRICE	104000

ALLOCATION OF PURCHASE PRICE

	AMOUNT
LAND	15000
HOUSE/APARTMENTS/ OTHER	89000
TOTAL AMOUNT	104000
EQUAL TO: TOTAL AMOUNT OF PURCHASE PRICE	

ALLOCATION OF LAND

	AMOUNT
LAND	11150
LAND IMPROVEMENTS:	
FENCE	600
SIDEWALKS	1000
PATIOS	500
DRIVEWAYS	1000
BUSHES	200
TREES	500
PARKING LOT	
EXTERIOR LIGHTING	50
SEPTIC TANK	
SPRINKLER SYSTEM	
OTHER	
TOTAL AMOUNT	15000
EQUAL TO LAND AMOUNT	

ALLOCATION OF HOUSE/APARTMENT/OTHER

PERSONAL PROPERTY AMOUNT

STOVE	200
REFRIGERATOR	300
DISHWASHER	100
MICROWAVE	50
WASHER	
DRYER	
AC INITS	
OTHER APPLIANCES	
CARPETING BY ROOM	
Living Room	150
Master Bedroom	150
First Guest Room	150
Second Guest Room	150
TILE	500
CEILING FANS 3	225
REMOVABLE LIGHT FIXTURES	150
OUTDOOR SHED	750
OTHER Wooden Floors	1500
TOTAL	4375

BUILDING ITEMS

FURNACE	
ROOF	1500
HVAC	2000
PLUMBING - KITCHEN	200
PLUMBING - BATH	200
PLUMBING - BATH	200
BATH TUBS	300
TOILETS	200
VANITIES	200
KITCHEN CABINETS	2000
DOORS	700
WINDOWS	1500
ELECTRICAL	1500
HOUSE	74125
TOTAL	84625

TOTAL PERSONAL AND BUILDING/APARTMENT/OTHER 89000

GRAND TOTAL: 104000