

Payments of Lessee in Lieu of Rent

- ❖ The FMV of lessee improvements made to the property in lieu of rent is also gross income to the lessor.
- ❖ The FMV of the lessee improvements are also allowable as a deduction in the computation of income from the rental activity.
- ❖ The value of the lessee improvements that are not made in lieu of rent is excluded from the lessor's gross income.
- ❖ Prepaid rent is included in gross income when received whether the lessor uses the cash or accrual method of counting (i.e. the same for cash-method and accrual-method taxpayers).
- ❖ Rental income from a residence is included in gross income unless the residence is rented out for less than 15 days a year.
- ❖ If rental income is excluded from gross income, the corresponding rental deductions are also disallowed.
- ❖ Rental income received by an individual where no significant services are provided should be reported on Schedule E (Form 1040).
- ❖ If significant services are provided, the rental income and expenses should be reported on Schedule C (1040).
- ❖ Income and expenses from business should be reported on Schedule C, Profit or Loss from Business.