

REAL ESTATE INVESTOR & LANDLORD TAX DEDUCTION CHECKLIST

2025 TAX YEAR | UPDATED FOR THE OBBBA & CURRENT IRS GUIDELINES

Real estate is one of the most tax-advantaged investments in the country — but only if you capture what you're entitled to. Use this checklist to make sure every deductible dollar on your rental and investment properties is tracked. Most of these are reported on **Schedule E** (or your entity return for an LLC, partnership, or S-Corp). The IRS allows deductions for expenses that are "**ordinary and necessary**" for operating your rental. The biggest money is missed in two places: **depreciation** and the **repair-vs-improvement** distinction — both covered below.

OPERATING EXPENSES (Schedule E)

■ Mortgage interest on the rental loan (the single largest deduction for most landlords)

Unlike a personal residence, rental mortgage interest is NOT subject to the \$750,000 cap — interest on the full loan balance is deductible. Includes interest on purchase loans, refinances, and HELOCs used for the rental.

■ Property taxes (real estate taxes on the rental)

Rental property taxes are a business expense on Schedule E and are NOT subject to the \$10,000 SALT cap that applies to personal taxes on Schedule A.

- Property insurance (hazard, fire, flood, landlord/dwelling policy)
- Property management fees
- Leasing commissions and tenant-placement fees
- HOA and condo association dues
- Advertising and listing fees (Zillow, Apartments.com, signage)
- Tenant screening and background/credit check costs
- Cleaning, landscaping, lawn care, snow/pest control
- Utilities you pay (water, gas, electric, trash, internet for common areas)
- Repairs and maintenance (see repair-vs-improvement note below)
- Supplies for the property
- Eviction costs and related legal fees

DEPRECIATION & MAJOR PURCHASES (the big one)

■ Building depreciation — residential rental over 27.5 years (straight-line)

Land is NOT depreciable — only the building. Depreciable basis = purchase price + certain closing costs, MINUS the land value. Uses the mid-month convention.

■ Commercial property depreciation — over 39 years

■ 100% Bonus depreciation on qualifying components (placed in service after Jan 19, 2025)

The 2025 OBBBA permanently restored 100% first-year bonus depreciation. It applies to assets with a useful life of 20 years or less (appliances, carpeting, fixtures, land improvements) — NOT the building structure itself. New and used property both qualify.

■ Cost segregation study — accelerate depreciation by reclassifying components into 5/7/15-year assets

Breaks the property into components (wiring, plumbing, fixtures, landscaping) so a large share can be deducted in year one via bonus depreciation. Typically worthwhile for properties valued around \$500K+.

- Appliances, furniture, and equipment (fridges, washers, HVAC units, etc.)
- Land improvements — fences, driveways, landscaping, walkways (15-year property)
- De minimis safe harbor — expense items under \$2,500 per invoice/item immediately
Requires a written policy in place at the start of the tax year.
- Capital improvements (depreciated, not expensed) — see distinction below

■ REPAIRS vs. IMPROVEMENTS — THE #1 COSTLY MISTAKE

Repair = keeps the property in working condition → **deduct the full amount now** (fixing a leak, patching, repainting, replacing a few shingles).

Improvement = better, restores, or adapts the property → **must be capitalized and depreciated** (new roof, room addition, full HVAC replacement, remodel).

Misclassifying a \$5,000 improvement as a repair invites recharacterization and penalties; misclassifying a repair as an improvement makes you wait 27.5 years for a deduction you could take today. This single distinction is worth thousands per property per year.

VEHICLE & TRAVEL

- Mileage to/from your properties (management, maintenance, rent collection, showings)

2025 standard rate: \$0.70/mile; 2026: \$0.725/mile. Keep a contemporaneous log: date, destination, purpose, miles. Or use actual vehicle expenses (business-use %) — choose one method.

- Out-of-town travel for an out-of-state property — airfare, lodging, rental car
- Meals during overnight rental-business travel (50% deductible)
- Parking and tolls for property-related trips

PROFESSIONAL SERVICES & FINANCIAL

- Bookkeeping and accounting fees (yes — your Valor Ledger fees are deductible)
- Tax preparation fees (portion related to the rental)
- Legal fees (leases, evictions, entity formation, disputes)
- Real estate attorney and contract review fees
- Bank fees on a dedicated property account
- Loan/financing fees and points (often amortized over the loan term)
- Business interest expense (now calculated on EBITDA for leveraged portfolios)
- LLC formation, annual report, and registered agent fees
- Professional memberships, REIA dues, and real estate subscriptions
- Education directly related to your current rental business

HOME OFFICE, TECH & ADMIN

- Home office used regularly and exclusively to manage your rentals
Simplified method: \$5/sq ft up to 300 sq ft (\$1,500 max). Regular method: business-use % applied to home costs.
- Property management & accounting software (QuickBooks, Stessa, Buildium, etc.)
- Computer, phone, and internet (business-use portion)
- Cloud storage and document management for leases/receipts
- Office supplies and postage for property administration

ADVANCED STRATEGIES & COMMONLY MISSED

- Qualified Business Income (QBI) deduction — up to 20% of net rental income
Available if your rental rises to a trade or business (or meets the Rev. Proc. 2019-38 safe harbor). Made permanent by the OBBBA; 2026 full-deduction thresholds: \$191,950 single / \$383,900 joint.
- \$25,000 special passive-loss allowance (active participation)
If you actively participate, up to \$25,000 of rental losses can offset ordinary income — phases out between \$100,000 and \$150,000 MAGI.
- Real Estate Professional status — unlock unlimited loss offset against other income
Requires 750+ hours/year in real property trades AND more than half your total working time in real estate. Documentation-intensive — keep a time log.
- Short-term rental (STR) exception — avg. stays under 7 days may escape passive-loss limits
- 1031 like-kind exchange — defer capital gains by rolling into another property
Preserved under the OBBBA. Strict timelines: 45 days to identify, 180 days to close. No extensions.
- Suspended passive losses carried forward (Form 8582) — don't lose track of them
- Casualty losses in federally declared disaster areas
- Start-up costs before placing the property in service (special rules apply)

QUICK REFERENCE: KEY REAL ESTATE NUMBERS (2025/2026)

Residential depreciation	27.5 years (straight-line)
Commercial depreciation	39 years
Bonus depreciation	100% (property placed in service after Jan 19, 2025 — OBBBA)
Section 179 limit	\$2,500,000 (2025) — limited use for residential landlords
Standard mileage rate	\$0.70/mile (2025) \$0.725/mile (2026)
De minimis safe harbor	\$2,500 per item/invoice
\$25,000 passive-loss allowance	Phases out \$100K–\$150K MAGI
Real estate professional	750+ hours AND >50% of working time in real estate
QBI deduction	Up to 20%; thresholds \$191,950 single / \$383,900 joint (2026)
1031 exchange timeline	45 days to identify, 180 days to close
Rental mortgage interest	No \$750K cap (unlike a personal residence)
Rental property taxes	No \$10K SALT cap (business expense on Sch. E)

PRO TIPS FROM VALOR LEDGER

Separate every property. Track income and expenses per door — not one big pile. It's the only way to know which property actually makes money and to defend each deduction.

Never commingle. A dedicated bank account and card per entity (or at least business-vs-personal) is the #1 way to protect deductions and avoid audit flags.

Get the land/building split right. Allocating too much basis to land quietly costs you depreciation every single year. Use the tax assessor's ratio or an appraisal.

Log your real estate hours. If you're aiming for Real Estate Professional status or the \$25K allowance, a contemporaneous time log is what makes it hold up.

Plan depreciation recapture before you sell. Depreciation is recaptured (taxed up to 25%) at sale whether or not you claimed it — so claim it, and plan for it.

Reconcile monthly, not in April. Clean monthly books catch missed deductions and turn tax season into a non-event.

BOOKS BUILT FOR REAL ESTATE INVESTORS & LANDLORDS

Valor Ledger LLC — per-property bookkeeping in QuickBooks Online, reconciled monthly, built so every deduction is captured and your return is clean.

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