Rentals

1.Was property used exclusively for rental use (>12 months or sold after rental period)?

yes → 1. If converted from personal use, depreciable basis is < adj basis or FMV at date of conversion.If converted this year, divide exp, such as taxes and insurance, between rental and personal time. Continue…

no ↓

2.Was the prop vacant?

yes → 2.Was the prop held out & avail for rent?

no → 2.Expenses must be capitalized.

no ↓

3.Did you rent out the property for >14 days (all owners)?

yes → 3.Do not include the rent rec'd or deduct expenses. Deduct int & taxes on Sch A.

no ↓

Was there any personal use of the property (all owners)?

no → 8.Was activity conducted for profit?

yes ↓

4.Is the portion of the property that is rented a separate dwelling unit (separate entrance, etc.)?

yes → 6A.Allocate expenses based on % of prop rented (use any reasonable method, i.e. # of rooms or sq ft, counting shared rooms as pers) & continue…

no ↓

5.Is the rental portion of the prop regularly avail for occupancy by paying customers, and not used by owner at any time during the year (i.e. room that is rented out & never used by owners, B&B, foreign exchange students)?

yes → 6A.Allocate expenses based on % of prop rented (use any reasonable method, i.e. # of rooms or sq ft, counting shared rooms as pers) & continue…

no ↓

7.Owner use prop personally 14 or more days (all owners)?

no → 6B.Divide expenses between rental & pers based on # of days used for each purpose (consider using Bolton method?) and continue...

yes ↓

7.Owner use prop 10% of total days it was rented at FMV?

no → 6B.Divide expenses between rental & pers based on # of days used for each purpose (consider using Bolton method?) and continue...

yes ↓

6B.Divide expenses between rental and personal based on # of days used for each purpose (Bolton method?) and 6A.% of property rented (using any reasonable method i.e. # of rooms or sq ft, counting shared rooms as personal use) 7.Report on Sch E limited by §280A (no loss allowed). Deduct in this order: 1) Advertising, mgmt fee, etc. 2) Int, taxes, casualty losses 3) Operating expenses 4) Depreciation. Excess expenses carry forward to next year.

8.Was activity conducted for profit?

no → 8.Report rental inc. on 1040 Line 21; int & taxes on Sch A; rental op exp subject to 280A limits on Sch A subject to 2% haircut. No C/O.

yes ↓

9.At-risk for all losses incurred?

no → 9.Limit loss to amount at-risk and file Form 6198 and continue…

yes ↓

10.Avg rental period <8 days?

yes → 14.This is NOT a rental activity under passive rules (no $25k window) & may need to be reported on Sch C.

no ↓

11.Avg rental period <31 days and significant pers services provided? (Daily maid service and/or meals)

yes → 14.This is NOT a rental activity under passive rules (no $25k window) & may need to be reported on Sch C.

no ↓

12.Extraordinary services provided? (Nursing home)

yes → 14.This is NOT a rental activity under passive rules (no $25k window) & may need to be reported on Sch C.

no ↓

13.Used by various customers during reg bus hours?

yes → 14.This is NOT a rental activity under passive rules (no $25k window) & may need to be reported on Sch C.

no ↓

15.Are >1/2 of personal services you perform in all bus performed in real prop bus in which you materially part?

yes → 16.Did you work > 750 hours in real prop businesses in which you materially participate?

no → 16.Did you work > 750 hours in real prop businesses in which you materially participate?

no ↓

18.Did you and your spouse own at least 10% of the activity?

no → 18.Activity does not qualify for $25,000 rental RE ded. Report on Sch E (no active part'n).

yes ↓

18.Did you make mgmt decisions or arrange for others to provide serv in a significant/bona fide sense?

no → 18.Activity does not qualify for $25,000 rental RE ded. Report on Sch E (no active part'n).

yes ↓

19.Self rental?

yes → 19.Passive income is recharacterized as nonpassive.

no ↓

Is filing status MFS?

yes → Live with spouse any time during year?

no ↓

You actively participate and qualify for $25,000 rental RE deduction if MAGI is <$150,000. (1/2 if MFS)

Live with spouse any time during year?

no → You actively participate and qualify for $25,000 rental RE deduction if MAGI is <$150,000. (1/2 if MFS)

yes → You are a real estate professional and your activity is not passive.

16.Did you work > 750 hours in real prop businesses in which you materially participate?

yes ↓

17.Did you and/or your spouse mat'ly part in this activity, or group of activities (cannot group rental RE with other types)?

no → 18.Did you and your spouse own at least 10% of the activity?

yes ↓

19.Self rental?

yes → 19.Passive income is recharacterized as nonpassive.

no → You are a real estate professional and your activity is not passive.

BRASS TAX Presentations™ www.BrassTax.com