FIESTA AUTO INSURANCE FIESTA TAX SERVICE

2019.20 Training

Subject: Rental Property | Talking Points

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Income from a rental property includes money you make from rent, payment for breaking a lease, tenant expenses, and any part of a security deposit you keep. Rental income must be reported on your tax return.

What is considered rental income?

If you earn money from renting out property you own – whether you're renting it for occupancy or just general use – you must report that income on your tax return. Generally, associated expenses can be deducted from your rental income.

Examples of rental income can include:

- Rent (paid on time or in advance)
- Payment to break or cancel a lease
- Expenses paid by the renter
- Any part of a security deposit you keep

What deductions can you take?

Deductible expenses are costs related to the management and maintenance of your property; these can include:

- Advertising and signage
- Cleaning supplies
- Real estate taxes
- Mortgage and other interest paid for the property
- Insurance – hazard, flood, fire, or liability

- Maintenance services like lawn care, pest control, and sanitation
- Accounting or financial advice related to your property
- New locks and keys
- Commissions paid
- Necessary transportation
- Repairs
- Equipment
- Depreciation of the property (not including land)
- Long distance calls associated with the property
- Legal fees
- Utilities

You **cannot** deduct income lost due to vacancy or the cost of improvements that raise the value or extend the life of your property or modify it for new use.

Important facts about owning rental property

If you rent **part** of your property, you need to divide the related expenses according to how much of the property is rented and how much is personal.

If you don't rent your property for profit, you can deduct rental expenses up to the amount of your rental income.

Any gain or loss from the sale of your property should be treated as ordinary or capital, depending on the situation.

Renting personal property, like equipment or vehicles, should be reported as business income. You are in the business of renting personal property if the main purpose for renting out the property is to gain income or profit, and if you are regularly involved in this type of transaction. If you rent your property for purposes other than a profit, there are other reporting rules.

Deductible losses from residential rental properties can be subject to certain limitations. If you are a real estate professional, special rules apply for reporting income and claiming losses.