



Residential Rentals: Tax Reporting

Course #34051A

Taxes

2 Credit Hours

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RESIDENTIAL RENTALS: TAX REPORTING

This course provides essential guidance on reporting rental income, expenses, and depreciation for residential rental properties. It also covers the correct treatment of casualty losses and explains how passive activity and at-risk rules impact rental property deductions. The course equips taxpayers with the knowledge to ensure accurate and compliant tax reporting.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Introduction

Residential Rental Property (Including Rental of Vacation Homes)

Study the course materials

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize how to report rental income and expenses, including depreciation, on the return.
- Recognize proper handling of casualty losses for residential rental property.
- Identify the passive activity and at-risk rules related to residential rental property.

NOTICE

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2 CPE hours**.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

INTRODUCTION

I. REMINDER

A. TRADE OR BUSINESS SAFE HARBOR - RENTAL REAL ESTATE

Notice 2019-07 contains a proposed revenue procedure that provides for a safe harbor under which a rental real estate enterprise will be treated as a trade or business for purposes of the section 199A deduction. If a rental real estate does not meet the safe harbor, then the enterprise must meet the trade or business rules under reg. 1.199A-1(b)(14).

Solely for purposes of Section 199A, a rental real estate enterprise will be treated as a trade or business if the following requirements are met during the tax year:

- Separate books and records are maintained.
- 250 or more hours of rental services are performed.
- The taxpayer maintains contemporaneous records to document the hours spent on the enterprise and the services rendered.
- Rental services include: Advertising to rent, negotiating leases, showing the property, daily operation of the property, repairs, and supervising employees or contractors. Activities such as arranging financing and constructing capital improvements do not count.
- The 250 hours of rental services can be performed by owners, employees, agents, and/or independent contractors.
- The following arrangements are excluded from this safe harbor: Net leased properties and vacation homes.
- The taxpayer must attach a statement to the tax return which states, “under of 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.”

RESIDENTIAL RENTAL PROPERTY (INCLUDING RENTAL OF VACATION HOMES)

Objectives

After completing this chapter, you should be able to:

- Recognize how to report rental income and expenses, including depreciation, on the return.
- Recognize proper handling of casualty losses for residential rental property.
- Identify the passive activity and at-risk rules related to residential rental property.

I. RENTAL INCOME

In most cases, you must include in your gross income all amounts you receive as rent. Rental income is any payment you receive for the use or occupation of property. It is not limited to amounts you receive as normal rental payments.

WHEN TO REPORT

When you report rental income on your tax return generally depends on whether you are a cash basis taxpayer or use an accrual method. Most individual taxpayers use the cash method.

Cash method. You are a cash basis taxpayer if you report income on your return in the year you actually or constructively receive it, regardless of when it was earned. You constructively receive income when it is made available to you, for example, by being credited to your bank account.

Accrual method. If you are an accrual basis taxpayer, you generally report income when you earn it, rather than when you receive it. You generally deduct your expenses when you incur them, rather than when you pay them.

TYPES OF INCOME

The following are common types of rental income.

Advance rent. Advance rent is any amount you receive before the period that it covers. Include advance rent in your rental income in the year you receive it regardless of the period covered or the method of accounting you use.

Example



On March 18, 2024, you signed a 10-year lease to rent your property. During 2024, you received \$9,600 for the first year's rent and \$9,600 as rent for the last year of the lease. You must include \$19,200 in your rental income in 2024.

Cancelling a lease. If your tenant pays you to cancel a lease, the amount you receive is rent. Include the payment in your income in the year you receive it regardless of your method of accounting.

Expenses paid by tenant. If your tenant pays any of your rental expenses, those payments are rental income. Because you must include this amount in income, you can also deduct the expenses if they are deductible rental expenses. For more information, see *Rental Expenses*, later.

Example 1



Your tenant pays the water and sewage bill for your rental property and deducts the amount from the normal rent payment. Under the terms of the lease, your tenant does not have to pay this bill. Include the utility bill paid by the tenant and any amount received as a rent payment in your rental income. You can deduct the utility payment made by your tenant as a rental expense.

Example 2



While you are out of town, the furnace in your rental property stops working. Your tenant pays for the necessary repairs and deducts the repair bill from the rent payment. Include the repair bill paid by the tenant and any amount received as a rent payment in your rental income. You can deduct the repair payment made by your tenant as a rental expense.

Property or services. If you receive property or services as rent, instead of money, include the fair market value of the property or services in your rental income.

If the services are provided at an agreed upon or specified price, that price is the fair market value unless there is evidence to the contrary.

Example



Your tenant is a house painter. He offers to paint your rental property instead of paying 2 months' rent. You accept his offer.

Include in your rental income the amount the tenant would have paid for 2 months' rent. You can deduct that same amount as a rental expense for painting your property.

Security deposits. Do not include a security deposit in your income when you receive it if you plan to return it to your tenant at the end of the lease. But if you keep part or all of the security deposit during any year because your tenant does not live up to the terms of the lease, include the amount you keep in your income in that year.

If an amount called a security deposit is to be used as a final payment of rent, it is advance rent. Include it in your income when you receive it.

Other Sources of Rental Income

Lease with option to buy. If the rental agreement gives your tenant the right to buy your rental property, the payments you receive under the agreement are generally rental income. If your tenant exercises the right to buy the property, the payments you receive for the period after the date of sale are considered part of the selling price.

Part interest. If you own a part interest in rental property, report your percentage of the rental income from the property.

Rental of property also used as your home. If you rent property that you also use as your home and you rent it fewer than 15 days during the tax year, do not include the rent you receive in your income and do not deduct rental expenses. Also, expenses from this activity are not considered rental expenses.

II. RENTAL EXPENSES

In most cases, the expenses of renting your property, such as maintenance, insurance, taxes, and interest, can be deducted from your rental income.

Personal use of rental property. If you sometimes use your rental property for personal purposes, you must divide your expenses between rental and personal use. Also, your rental expense deductions may be limited. See *Personal Use of Dwelling Unit (Including Vacation Home)*.

Part interest. If you own a part interest in rental property, you can deduct expenses you paid according to your percentage of ownership.

Example



Roger owns a one-half undivided interest in a rental house. Last year he paid \$968 for necessary repairs on the property. Roger can deduct \$484 ($50\% \times \968) as a rental expense. He is entitled to reimbursement for the remaining half from the co-owner.

WHEN TO DEDUCT

You generally deduct your rental expenses in the year you pay them.

TYPES OF EXPENSES

Listed below are the most common rental expenses.

- Advertising.