Residential property development pdf

Encrypt the return on investment potential of residential income opportunities This tool will consider factors that will determine the viability and potential of a residential income property. Calculated factors include: debt service coverage ratio (DSCR), net operating income (NOI), net income multiplier (NIM), capitalization ratio (CAP) and more. Current Mortgage Rates An investment property is one of the safest ways to build a monthly cash flow, but it's not one of the easiest. Our practical residential income property potential calculator will help you decide what kind of home to invest in, as well as show you the full monetary potential of a particular property. From 2002 to 2007, investing in rental properties became a big rage for average Americans, thanks to easy-to-pay financing and small down payment requirements. Suddenly, residential income property and home flips spawned their own websites, TV shows, and subculture. Not surprisingly, everything that goes up has to go down, and the real estate market came back to earth in 2007. Since then, rental properties have fluctuated, but a good investment opportunity can still be had if you know where to look - and what to look for. So how do you assess the potential income of a rental property? Well, here are four ways for investors to look at residential real estate potential. Sales Comparison Approach This popular method of evaluating income-generating homes simply compares similar homes that have rented or sold over a specified period of time. In order to chart all trends, many investors like to look at the Sales Comparison (SCA) approach over a long period of time. For example, the SCA can be calculated using the price per square foot. This make it easy for investors to understand the value of their property. If a 2,500-square-foot property rents for $1 per square foot, investors can expect to get the same rental income from a similar home in the same area. Keep in mind that the SCA is a generic comparison that does not take into account the uniqueness of each rental property. That said, you should always seek the help of a certified appraiser when you request a sales comparison analysis. Capital pricing model The Capital Pricing Model (MSC) is a more complex tool that takes into account the financial risks associated with income real estate investment. Essentially, it compares the return on investment (ROI) you would get from a rental property to other investments that are considered to be without such as Treasury bonds. Because properties come in all sizes, shapes and conditions, it is important to note that CAPM understands the risk factors of real estate income generation. An older property is likely to result in more maintenance costs, and a property in a high-crime area will cost more to secure. Once you include these risk factors, the guaranteed (risk-free) return on investment may well exceed the return on investment of rental income. In this case, it doesn't make much sense to take the associated with real estate investment. Property management company CBRE conducted an investigation into North American policy rates that revealed the following cap rates in the second half of 2019. Property Type Subcategory CbD Office Cap Rate 6.65% Suburban Office 7.80% Industrial - 6.13% Retail Quarter 7.47% Retail Power 8.54% Retail High Street 4.4.4.4.47% Retail Power 8.54% Retail High Street 4.4.4.4.44.47% Retail Power 8.54% Retail High Street 4.4.4 78% Multifamilial Interfill 5.11% Multifamily Suburban 5.37% CBD Hotels 7.99% Suburban Hotels 8.55% Their full results also include breakdowns by class level. In all property categories, cap rates are higher on high-risk units with lower class ratings. Cost Approach The cost-effective approach to real estate investment in rentals is the most practical approach because it assesses the value of the property against its best use. In other words, the value is related to the best likely use. Because this approach is often used to assess the value of vacant land, for example, let's take vacant land and find its best use value. A real estate developer will pay a nice penny for a few acres of land to build condominiums. But if the land in question is twenty miles in the middle of nowhere and surrounded by oil fields, the best use of this land is not in the construction of condos. Instead, the value is perhaps annexing the land to find more oil, and that is how its market value is established, long before any land is broken. The cost approach and determining the best use are also useful for putting a price on the property, which has not yet been zoned as residential. This is because the developer will have to spend a package on rezoning. This method is much more accurate when applied to newer homes than to older structures. The Income Approach This tabulation method takes the potential income for the rental property and compares it to the initial investment. Often used for residential rentals and commercial real estate investments, the income-based approach focuses on projected annual income divided by its current value. If a rental cottage costs $120,000 to purchase and the expected monthly rental income is $1,200, the capitalization rate is 12% (12 x 1200/120,000). Of course, the example above is too simplified. In real life, you would have to pay interest charges on the mortgage, and there is an additional factor in the equation: the dollars you receive in future rent payments may or may not be more valuable than today's dollar. The income approach go into the smallest details for precise calculations. Here are some of the considerations of long-term calculations: Real Estate Assumptions Purchase Price Loan Down rate Loan Rate Principal Term Rate - Closing Costs of Interest Payments Regular Gross Income (GSI) Vacancy Rate Pro-forma Share Account Gross Cash Flow Income Account (GSI): The maximum possible annual income you receive if everyone pays their rent. Less vacancy: Gross operating income multiplied by vacancy rate. Total real annual income: Annual annual income after deducting the amount of the vacancy. Other income (laundry, late fees, etc.) Gross Operating Income (OIR): Subtract the vacancy amount from the IGH and then add additional revenues. Total operating expenses: The sum of all your annual operating expenses. Net Operating Income (ISI): This is your earnings after deducting all expenses, excluding the mortgage. Annual Debt Service (Mortgage Payments): Your total annual mortgage payment, including principal and interest. Before Tax Cash Flows (BTCF): The positive cash flows your property generates each year. Annual Operating Costs Accounting Administrator/Bank Charges Advertising Electricity Elevator Wind Landscaping Legal Maintenance - RepairIng Pay Rights Permits - Licenses Pest Control Property Management Property Management Property Management Property Management Renter's Safety Renter Purchase Trash Water Other Key Operating Ratios Key Operating Rates: Net Operating Income (NOI) Divided by The Best Cost of Property Cash Cash (COC): This is your return on investment. Gross Rent Multiplier (MRM): This represents the purchase price divided by regular gross income (ISF). Net Income Multiplier (NIM): This is the purchase price divided by net operating income (ISI). Debt Hedging Ratio (DCR): Net operating income divided by annual debt service - the higher, the better. A DCR below 1.0 means that the property is in the red with a negative cash flow. A DCR above 1.2 is considered a good cash flow for a property. Expenditure Ratio (ER) per unit: This is the total operating expense divided by gross operating profit (IGI), and a percentage below 35 is desirable. Price per unit: The purchase price divided by the number of units you have in the building. Property value based on the required CAP rate: This is the value of the property based on your required capitalization rate. Your Future in Real Estate Rentals Although there is still a small fortune to be made in income property, times have changed. You can no longer hope to return a house without money down. But if you know how to evaluate real estate, and you use a bit of each of the four valuation methods described above... your fortune awaits you. Homeowners may want to refinance while low rates of 10-year U.S. Treasury rates have recently fallen to all-time highs due to the spread of coronavirus driving an out-of-feeling risk, with other financial rates falling in tandem. Owners who buy or today's low rates can benefit from recent rate volatility. Are you paying too much for your mortgage? Find out what you qualify to check your refinancing options with a trusted lender. Answer a few questions below and connect with a lender who can help you refinance and register today! Publication 527 - Introductory Materials Income and Rental Expenditure (if no personal use of housing) Amortization of rental property reporting rental income, expenses and losses Special use of the housing unit Holiday Home) How to get tax assistance Publication 527 - Additional material For use in preparing returns For the latest information on developments related to Pub. 527, such as legislation enacted after its publication, go to IRS.gov/Pub527. Mortgage insurance premiums. Recent legislation has extended the deduction for mortgage insurance premiums until 2019 (and retroactively until 2018). See the 5-1 spreadsheet later in this publication, and the instructions for Schedule A for more information. If you qualify for this deduction in 2019, you can claim it on your 2019 return. If you are eligible to claim this deduction for the 2018 tax year, you will need to file an amended return, Form 1040-X, to do so. See IRS.gov/Form1040X for more information on changing a tax return. Net Investment Income Tax (NIIT). You may be subject to net investment income tax (INI). The NIIT is a tax of 3.8% on the smallest net investment income or the modified Adjusted Gross Income (SSS) surplus above the threshold amount. Net investment income may include rental income and other income from passive activities. Use Form 8960 to encrypt this tax. For more information on niit, visit IRS.gov/NIIT. Photographs of missing children. The Internal Revenue Service is a proud partner of the National Center for Missing and Exploited Children®. Photographs of missing children selected by the Centre may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photos and calling 800-THE-LOST (800-843-5678) if you recognize a child. Do you own a second home that you rent all the time? Do you own a holiday home that you rent when you or your family is not using it? These are two common types of residential rental activity discussed in this publication. In most cases, all rental income must be reported on your tax return, but there are differences in the expenses you are allowed to deduct and in the way the rental activity is reported on your return. Chapter 1 deals with for-profit rental activity in which there is no personal use of the property. It examines certain common

types of rental income and when each is declared, as well as certain common types of expenses that are deductible. Chapter 2 deals with depreciation as it applies to your rental real estate activity — what property can be depreciated and how much it can be depreciated. Chapter 3 covers the return of your rental income and including victims and thefts, limitations on losses, and claiming the correct amount of depreciation. Chapter 4 deals with special rental situations. These include condominiums, co-ops, property changed to rental use, renting only part of your property, and a non-profit rental activity. Chapter 5 deals with the rules for rental income and expenses when there is also a personal use of the housing unit, such as a holiday home. Finally, Chapter 6 explains how to get tax assistance from the IRS. Comments and and We welcome your comments on this publication and your suggestions for future editions. You can send us comments by IRS.gov/FormComments. Or, you can write to: Internal Revenue Service, Tax Forms and Publications, 1111 Constitution Ave. NW, IR-6526, Washington, DC 20224. While we cannot respond individually to each comment received, we appreciate your feedback and will review your comments as we review our tax forms, instructions and publications. We cannot answer the tax questions sent to the address above. Publication 463 Travel, Gift and Car Expenses 523 Sale of your home 534 Depreciation of property commissioned before 1987 535 Business expenses 544 Sales and other asset disposals 547 Victims, Disasters and Flights 551 Property Base 925 Passive Activity and Risk Rules 946 How to Depreciate Property Form (and Instructions) 4562 Amortization 5213 Election To defer determination as to whether the presumption applies to an activity 8582 For-profit Limitations on Business Losses Appendix E (Form 1040 or 1040-SR) Additional income and loss This chapter deals with various types of rental income and expenses for residential rental activity without personal use of the dwelling. In general, each year, you will report all income and deduct all personal expenses in full. The deduction to recover the cost of your rental property — depreciation — is taken over a prescribed number of years, and is discussed in Chapter 2, Amortization of Rental Property. If your rental income comes from a property that you also use personally or rent to someone at a fair rental price, first read Chapter 5, Personal Use of the Housing Unit (including the Vacation Home). In most cases, you must include in your gross income all the amounts you receive as rent. Rental income is any payment you receive for the use or occupancy of the property. It is not limited to the amounts you receive as normal rental payments. When you declare rental income on your tax return usually depends on whether you are a cash or accumulation taxpayer. Most taxpayers use the cash method. In most cases, your property rental expenses, such as maintenance, insurance, taxes and interest, can be deducted from your rental income. You usually deduct your rental fees in the year you pay them. If you use the accumulation method, see Pub. 538 for more information. The most common rental expenses are listed Advertisements. Car and travel expenses. Cleaning and maintenance. Commissions. Amortization. Insurance. Interest (other). Legal fees and other professional fees. Local transportation costs. Management fees. Mortgage interest paid to banks, etc. Points. Rental payments. Repairs. Taxes. Utilities. Some of these expenses, as well as some less common ones, are discussed below. Local transportation costs. You may be able to deduct your regular and necessary local transportation costs if you commit them to collect the rental or to manage, maintain or maintain your rental property. However, transportation costs incurred to travel between your home and a rental property are generally non-deductible travel expenses, unless you use your home as your main business location. See Pub. 587, Business Use of Your Home, for information on whether your head office is considered a primary business location. In general, if you use your personal car, van or light van for rental activities, you can deduct expenses using one of two methods: actual expenses or the standard mileage rate. For 2019, the standard mileage rate for commercial use is 58 cents per mile. For more information, see Chapter 4 of the Pub. 463. To deduct car costs by either method, you must keep records that follow the rules of Chapter 5 of the Pub. 463. In addition, you must complete Form 4562, Part V, and attach it to your tax return. The term points is often used to describe some of the fees paid, or treated as paid, by a borrower to take out a loan or mortgage. These fees are also called original loan fees, maximum loan fees, or premium fees. All these fees (points) that are only for the use of money are interest. Since the points are prepaid interest, you generally cannot deduct the full amount of the year paid, but you must deduct interest over the life of the loan. The method used to quantify the number of points you can deduct each year follows the original emission discount (IDO) rules. In this case, the points are equivalent to the IDO, which is the difference between: The amount borrowed (purchase price at maturity, or principal); and the product (issue price). The first step is to determine whether your total OID (which you may have on bonds or other investments in addition to the mortgage), including the OID resulting from the points, is insignificant or de minimis. If the OID is not de minimis, you should use the constant yield method to determine how much you can deduct. De minimis OID. The OID is de minimis if it is less than a quarter of 1% (0.0025) of the purchase price declared at maturity (main loan amount) multiplied by the number of full years between the initial issue date and the maturity (loan term). If the OID is de minimis, you can choose one of the following ways to quantify the amount of points you can deduct each year. On a constant return basis over the life of the loan. On a straight basis over the term of the loan. Proportionately to declared interest payments. In its entirety at the maturity of the loan. You this choice by deducting the OID (points) in a manner consistent with the method chosen on your tax return filed in a timely manner for the tax year in which the loan is issued. Example. Carol took out a $100,000 mortgage on January 1, 2019 to purchase a home that she will use as a rental in 2019. The loan must be repaid over a 30-year period. In 2019, Carol paid $10,000 in mortgage interest (declared interest) to the lender. When the was made, she paid $1500 in points to the lender. Points reduced the principal loan amount from $100,000 to $98,500, resulting in $1,500 of IDO. Carol determines that the points (IDO) she paid are de minimis based on the following calculation. The points (IDO) she paid ($1,500) are less than the de minimis amount ($7,500). Therefore, Carol has de minimis OID and she can choose one of four ways discussed earlier to quantify the amount she can deduct each year. Depending on the straight line method, she can deduct $50 per year for 30 years. Example: Year 1. The facts are the same as in the previous example. Carol's loan maturity yield is 10.2467%, compounded annually. It considered that the amount of points (IDO) it could deduct in 2019 as follows. To quantify your deduction in a later year, you start with the adjusted issue price. To obtain the adjusted issue price, add to the issue price shown in year 1 any previously deducted OID. Then follow the steps (2) and (3), earlier. Example: Year 2. Carol estimated that the deduction for 2020 was the following. As a general rule, an expense for repairing or maintaining your rental property can be deducted if you are not required to capitalize on the expense. Separate the costs of repairs and improvements and keep accurate records. You will need to know the cost of improvements when you sell or depreciate your property. The expenses you capitalize on to improve your property can usually be depreciated as if the upgrade were a separate property. You recover the cost of income-producing assets through annual tax deductions. You do this by depreciating the property; i.e. deducting a portion of the costs each year on your tax return. Three factors determine the amount of amortization you can deduct each year: (1) your base in the property, (2) the recovery period of the property and (3) the depreciation method used. You cannot simply deduct your mortgage or capital payments, or the cost of furniture, appliances, and equipment, as an expense. You can only deduct depreciation from the share of your property used for rental purposes. Amortization reduces your base for calculating gain or loss on a subsequent sale or exchange. You may need to use Form 4562 to encrypt and report your amortization. See what shapes to use in Chapter 3. Also, see Pub. 946. The following section discusses the information you will need to have about rental property and the decisions to make before determining your depreciation deduction. You can depreciate your property if it meets all the following requirements. You own the property You use property in your business or income-generating business (such as renting real estate). The property has a determinable lifespan. The property is expected to last more than a year. Some properties cannot be depreciated. This includes land and certain property excepted. Earth. You cannot depreciate the cost of land because the earth usually does not wear out, does not become obsolete, or get used to it. But if this is the case, the loss loss taken into account by decision. The costs of clearing, grading, planting and landscaping are usually all part of the cost of the land and cannot be depreciated. However, you may be able to depreciate some land preparation costs if the costs are so closely associated with other depreciable assets that you can determine a lifespan for them as well as the life of the associated property. Example. You have built a new house to use as a rental and paid for grading, clearing, seeding, and planting bushes and trees. Some bushes and trees were planted right next to the house, while others were planted around the outer boundary of the lot. If you replace the house, you would have to destroy the bushes and trees right next to it. These bushes and trees are closely associated with the house, so they have a determinable lifespan. Therefore, you can depreciate them. Add your other land preparation costs to the base of your land because they don't have a determinable lifespan and you can't depreciate them. You start to depreciate your rental property when you put it into service for income generation. You stop depreciating it either when you have fully recovered your cost or another base, or when you remove it from service, depending on what happens first. You place a property in service in a rental activity when it is ready and available for specific use in that activity. Even if you don't use the property, it's in service when it's ready and available for its specific use. Example 1. On November 22 last year, you purchased a dishwasher for your rental property. The aircraft was delivered on December 7, but was not installed and ready for use until January 3 of this year. As the dishwasher was not ready for use last year, it is not considered to be in service until this year. Had the device been installed and ready for use when it was delivered in December of last year, it would have been considered into service in December, although it was not in use until this year. Example 2. On April 6, you purchased a house to use as a residential rental property. You made major repairs at home and had it prepared for rent on July 5. You started announcing the house for rent in July and actually rented it from September 1. The house is considered commissioned in July when it was ready and available for rent. You can start depreciating the house in July. Example 3. You moved out of your house in July. In August and September, you made several repairs at home. The 1st you have registered the property for rent with a real estate company, which rented it on December 1. The property is considered to be commissioned on October 1, when it was available for rent. Continue to claim a depreciation deduction on property used in your rental business, even if it is temporarily inactive (unused). For example, if you need to make repairs after a tenant moves, you continue to depreciate the rental property for as long as it is not available for You must stop depreciating the property when your total annual depreciation deductions are equivalent to your cost or any other basis of your property. To this end, your annual depreciation deductions include any depreciation you have been allowed to claim, even if you have not claimed it. See Basis of Depreciable Property , later. You stop depreciating the property when you remove it from service, even if you haven't fully recovered its cost or other bases. You remove your ownership from the service when you permanently remove it from a business or business or use in revenue generation because of one of the following events. You sell or exchange the property. You convert the property into personal use. You're abandoning the property. The property is destroyed. As a general rule, you must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate residential rental properties that were commissioned after 1986. If you started a rental property before 1987, you use one of the following methods. Accelerated Cost recovery system (SCRA) for goods commissioned after 1980, but before 1987. A straight line or decreasing equilibrium method over the life of goods commissioned before 1981. See MACRS Depreciation , later, for more information. This publication deals only with the amortization of MACRS. If you need information about the depreciation of a property commissioned before 1987, see Pub. 534. The basis of the property used in a rental activity is usually its adjusted base when you put it into service in that activity. This is its cost or other basis when you acquired it, adjusted for certain items occurring before putting it into service in the rental business. If you are depreciating your property under MACRS, you may need to reduce your base by certain deductions and credits for the property. The base and the adjusted base are explained in the following discussions. If you used the property for personal purposes before changing it to rental use, its amortization base is the least of its adjusted base or fair market value when you change it to rental use. See Base of Property Changed to Rental Use in chapter 4. You cannot use cost as a basis for the goods you have received: In exchange for the services you have performed; In an exchange for other goods; As a gift; Your spouse, or ex-spouse following a divorce; or as a legacy. If you have received property in any of these ways, check out the Pub. 551 for information on how to encrypt your base. To determine the amortization basis of your property, you may need to certain adjustments (increases and decreases) to the base of the property for events that occur between the time you acquired the property and the time you commissioned it for the business or revenue generation. The result of these adjustments at the base is the adjusted base. For 2019, certain properties used in residential real estate activities may be eligible for impairment This allowance is taken into account before encrypting your regular depreciation deduction. See Pub. 946, Chapter 3, for more details. Also, see the instructions for Form 4562, Line 14. If you are eligible, but choose not to take a special depreciation allowance, you must attach a return to your return. The details of this election are in the pub. 946, Chapter 3, and instructions for Form 4562, Line 14. Most business and investment assets commissioned after 1986 are depreciated using MACRS. This section explains how to determine which MACRS damping system applies to your property. It also deals with other information that you need to know before you can quantify depreciation under MACRS. This information includes assets: recovery class, applicable payback period, Convention, commissioning date, amortization base and amortization method. MACRS consists of two systems that determine how you depreciate your property: the General Amortization System (GDS) and the Alternative Amortization System (ADS). You must use GDS unless you are specifically required by law to use ADS or you choose to use ADS. You cannot use macrs for certain personal belongings (such as furniture or appliances) put into service in your rental property in 2019 if it had already been commissioned before 1987, when macrs became effective. In most cases, personal property is excluded from MACRS if you (or someone connected to you) owned or used it in 1986 or if your tenant is a person (or person related to the person) who owned or used it in 1986. However, ownership is not excluded if your 2019 deduction under MACRS (using a half-year agreement) is less than the deduction you would have under CSRA. For more information, see What method can you use to depreciate your property? in Pub. 946, Chapter 1. If you wish, you can use the ADS method for most properties. Under ADS, you use the straight-line damping method. The election of ADS for an item in a property category generally applies to all property in that category that was commissioned during the election tax year. However, the election applies on a property-by-property basis for residential rental properties and non-residential real estate. If you choose to use ADS for your residential rental property, the election must be made in the first year the property is commissioned. Once you do this election, you can never revoke it. For goods commissioned in 2019, you are electing to use ADS in amortization on Form 4562, Part III, Section C, Line 20c. Each property that can be depreciated under the MACRS is assigned to a class of properties, determined by its class life. The property class generally determines the amortization method, the payback period and the agreement. The property categories under GDS are: 3-year property, 5-year property, 7-year property, 10-year property, 15-year-old property, 20-year-old property, non-residential property, and residential rental property. Under Under The properties you have put into service in 2019 in your rental activities are usually in one of the following classes. 5-year-old property. This class includes computers and peripheral equipment, office machines (typewriters, calculators, photocopiers, etc.), automobiles and light trucks. This class also includes appliances, carpet and furniture used in residential rental real estate. Depreciation is limited for automobiles and other goods used for transportation and goods of a type generally used for entertainment, recreation or entertainment. See Chapter 5 of the Pub. 946. 7-year-old property. This class includes office furniture and equipment (offices, filing cabinets and similar items). This class also includes any property that does not have a class life and has not been designated by law as being in any other class. 15 years of ownership. This class includes roads, fences and shrubs (if depreciable). Residential rental property. This category includes any property that is a rental building or structure (including a mobile home) for which 80% or more of the gross rental income for the tax year comes from residential units. It does not include a unit in a hotel, motel, hostel or other establishment where more than half of the units are used transiently. If you live in any part of the building or structure, gross rental income includes the fair rental value of the room in which you live. Other property classes generally do not apply to properties used in rental activities. These courses are not discussed in this publication. See Pub. 946 for more information. The payback period of the property is the number of years on which you recover its cost or other bases. Recovery periods are generally longer under ads than GDS. The recovery period of the property depends on its property class. Under the SDG, the recovery period for an asset is generally the same as its ownership category. Class lives and payback periods for most assets are listed in Schedule B of the Pub. 946. See Table 2-1 for periods of recovery of property commonly used in residential rental activities. An agreement is a method established under the MACRS to define the beginning and end of the recovery period. The agreement you use determines the number of months for which you can claim depreciation in the year you place and in the year you have the property. Example. During the tax year, Tom purchased the following items to use in his rental property. It not to claim the special amortization allowance discussed earlier. A dishwasher for $400 that he put into service in January. Used furniture for $100, which it commissioned in September. A refrigerator for $800 that he put into service in October. Tom uses the calendar year as a tax year. The total base of all goods commissioned that year is $1,300. The $800 base of the refrigerator commissioned in the last three months of its tax year exceeds $520 (40% × $1,300). Tom is expected to use the mid-quarter instead of the semi-annual agreement for the three points. You can encrypt your MACRS amortization deduction in one of two ways. The deduction is essentially the same in both directions. You can encrypt the deduction using the depreciation method and the agreement that apply during the payback period of the property, i.e. the percentage of the tables as a percentage of the MACRS. In this publication, we will use the percentage tables. For instructions on how to calculate the deduction, see Chapter 4 of the Pub. 946. Property of 5, 7 or 15 years. For 5- or 7-year-olds, use the 200% lower balance method and a half-year agreement. However, in limited cases, you must use the mid-quarter agreement, if it applies. For 15-year-olds, use the 150% lower balance method and a half-year agreement. You can also choose to use the 150% drop balance method for 5- or 7-year-old class goods. The choice to use the 150% method for an item in a property class applies to all property in that category that is commissioned during the election tax year. You are making this election on Form 4562. In Part III, Column f), enter 150 DB. Once you do this election, you can't change to another method. If you use the 200% or 150% downward balance method, figure out your deduction using the straight line method in the first tax year that the straight line method gives you an equal or larger deduction. You can also choose to use the straight line method with a mid-year or mid-term agreement for 5, 7 or 15 year ownership. The choice to use the straight line method for an item in a property category applies to all property in that category that is commissioned during the election tax year. You elect the method in a straight line on Form 4562. In Part III, Column f), enter S/L. Once you do this election, you can't change to another method. You can use the percentages in Table 2-2 to calculate annual amortization under MACRS. The tables show the percentages for the first few years or until the change to the straight line method is made. See Appendix A of the pub. 946 for complete tables. The percentages in tables 2-2a, 2-2b, and 2-2c make the change from balance decreasing to the straight in the year that the straight will give a larger deduction. If you choose to use the straight line method for the 5-, 7- or 15-year-old property, or the 150% balance reduction method for 5- or 7-year-old properties, use the Schedule A tables of the Pub. How to use percentage tables. You must apply table rates to the unadjusted base of your property (defined later) each year of the payback period. Once you start using a percentage chart to quantify depreciation, you must continue to use it throughout the payback period, unless there is an adjustment to the base of your property for a reason other than: Authorized or eligible amortization, or an addition or improvement that is depreciated as a separate property item. If there is an adjustment for with the exception of (1) or (2), for example, due to a loss of deductible loss, you can no longer use the table. For the year of the adjustment and for the remaining recovery period, the amortization of the figures using the adjusted basis of the property at the end of the year and the appropriate amortization method, as explained previously in the calculation of your depreciation deduction . See Figureing the Deduction Without Using the Tables in Pub. 946, Chapter 4. Click here to describe the text of the image. Tables 2-2a, 2-2b and 2-2c. The percentages of these tables take into account the semi-annual and mid-quarter agreements. Use Table 2-2a for 5-year-olds, Table 2-2b for 7-year-olds and Table 2-2c for 15-year-olds. Use the percentage of the second column (semi-annual agreement) unless you are required to use the mid-quarter agreement (previously explained). If you need to use the mid-quarter agreement, use the column that corresponds to the quarter of the calendar year in which you put the property into service. Example 1. You bought a stove and refrigerator and put them into service in June. Your base in the stove is $600 and your base in the fridge is $1,000. Both are 5-year-olds. Using the half-yearly conference column in Table 2-2a, the amortization percentage for year 1 is 20%. For this year, your amortization deduction is $120 ($600 × $0.20) for the stove and $200 ($1,000 × $0.20) for the refrigerator. For year 2, the amortization percentage is 32%. This year's depreciation deduction will be $192 ($600 × $0.32) for the stove and $320 ($1,000 × $0.32 for the refrigerator. Example 2. Suppose the same facts as in example 1, except that you buy the refrigerator in October instead of June. Given that the refrigerator was put into service during the last three months of the tax year and that its base ($1,000) is more than 40% of the total base of all goods commissioned in the during the year ($1,600 × $0.40 - $640), you must use the mid-quarter agreement to encrypt depreciation on both the stove and the refrigerator. Because you put the refrigerator into service in October, you use the fourth quarter column in Table 2-2a and find that the depreciation percentage for year 1 is 5%. Your depreciation deduction for the refrigerator is $50 ($1,000 x 0.05). Because you put the stove into service in June, you use the second quarter column of Table 2-2a and find that the depreciation percentage for year 1 is 25%. For this year, your depreciation deduction for the stove is $150 ($600 x 0.25). Table 2-1, more shows the clawback periods of the ADS for properties used in rental activities. See Appendix B in pub 946 for other goods. If your property is not listed in Schedule B, it is considered to have no classroom life. Under the ADS, personal property without class life is depreciated with a 12-year payback period. Use the mid-month agreement for residential rental properties and non-residential real estate. For all other assets, use the semi-annual or mid-quarter, mid-quarter, See Pub. 946 for ADS depreciation tables. You must apply for the correct amount of amortization each tax year. If you did not claim all the amortization you were entitled to deduct, you must still reduce your base in the property by the total amount of amortization that you could have deducted. For more information, see Amortization under Base Decreases in Pub. If you have deducted an incorrect amount of amortization for property in a year, you may be able to make a correction by filing Form 1040-X, a modified personal income tax return in the United States. If you are not allowed to make the correction on an amended return, you may be able to change your accounting method to claim the correct amount of depreciation. For more information, visit How to Fix Amortization Deductions at the Pub. 946. Determining the income or net loss of residential rental activity may involve more than simply listing income and deductions in Schedule E (Form 1040 or 1040-SR). There are activities that are not eligible to use Schedule E, for example when the activity is not engaged to make a profit or when you provide substantial services in conjunction with the property. There are also limits that may need to be applied if you have a net loss in Appendix E. There are two: (1) the limit based on the amount of investment you have at risk in your rental activity, and (2) the special limits imposed on passive activities. You may also have a gain or loss related to your rental property of a victim or a theft. This is considered separately from the income and expense information you report in Schedule E. The basic form for reporting residential rental income and expenses is Schedule E (Form 1040 or 1040-SR). However, do not use this calendar to report a non-profit activity. See Not praised for profit, later, in Chapter 4. There are also other rental situations in which forms other than Schedule E would be used. If you rent buildings, rooms or apartments, and provide basic services such as heat and light, garbage collection, etc., you normally report your rental income and expenses to Schedule E, Part I. List your total income, expenses and amortization for each rental property. Be sure to enter the number of days of fair rental and personal use on line 2. If you have more than three rental or royalty properties, fill in and attach as many E-schedules as necessary to list all properties separately. fill lines 23a to 26 on a single E calendar. The numbers on Schedule E lines 23a to 26 should be the combined totals for all properties listed in your E schedules. On Appendix E, page 1, line 18, enter the depreciation you claim for each property. You may also need to attach Form 4562 to claim some or all of your amortization. See Form 4562 , later, for more information. If you have a loss of your rental real estate business, you may also need to fill out one or both forms. Page 2 of Appendix E is used to report or the loss of partnerships, S-companies, estates, trusts and real estate mortgage investment lines. If you need to use Page 2 of Appendix E and you have more than three rental or royalty properties, be sure to use page 2 of the same Schedule E that you used to enter the combined totals of your rental activity on page 1. Also include the amount of Line 26 (Part I) in the total income or (loss) of Line 41 (Part V). Typically, Schedule C is used when you provide substantial services in conjunction with the property or when the rental is part of a business or business as a real estate broker. Provide substantial services. If you provide substantial services that are primarily intended for the convenience of your tenant, such as regular cleaning, changing linens or maid service, you report your rental income and expenses to Schedule C. Use Form 1065, corporate income tax return in the United States, if your rental business is a partnership (including a partnership with your spouse). , unless it is a qualified joint venture). Important services do not include furnishing heat and light, cleaning public spaces, collecting garbage, etc. For more information, see Pub. 334, Tax Guide for Small Business. In addition, you may have to pay self-employment tax on your rental income using Schedule SE (Form 1040 or 1040-SR), self-employment tax. For a discussion on substantial services, see Real Estate Rents in Pub. 334, Chapter 5. If you and your spouse participate each year (see Material Participation under Passive Limits, later) as the sole members of a jointly owned and operated real estate business, and you file a joint return for the tax year, you can make a joint election to be treated as a qualified joint venture instead of a partnership. This election, in most cases, will not increase the total tax due on the joint return, but it does give each of you a credit for the social security income on which the pension benefits are based and for the coverage of health insurance if your rental income is subject to self-employment tax. If you are in this election, you must report rental real estate income to Schedule E (or Schedule C, if you provide substantial services). You will not be required to file Form 1065 for any year the election is in effect. Rental property income is generally not included in the net income of self-employment subject to self-employment tax and is generally subject to passive activity limits. If you and your spouse have filed a Form 1065 for the year prior to the election, the corporation ends at the end of the tax year immediately preceding the election. For more information on qualified joint ventures, visit IRS.gov/QJV. If you have a loss of your rental real estate activity, two sets of rules may limit the amount of loss you can declare in Schedule E. You must consider these rules in the order shown below. Both are discussed in this section. Rules at risk. These rules are applied first if there is an investment in your rental rental real estate activity you are not in danger. This only applies if the property was put into service after 1986. Passive activity limits. In general, rental real estate activities are considered passive activities and losses are not deductible unless you have income from other passive activities to compensate for them. However, there are exceptions. In addition to risk rules and passive business limits, the rules on excess business losses apply to losses in all non-business or non-business occupations. This loss limitation is shown using Form 461 once you have completed your Schedule E. Any limitation to your loss resulting from these rules will not be reflected in your Appendix E. Instead, it will be added to your income on Form 1040 or Form 1040-SR and treated as a net operating loss that must be carried forward and deducted in a subsequent year. You may be subject to risky rules if you have: A loss of an activity carried out such as a business or business or for the production of income, and the amounts invested in the activity for which you are not fully at risk. Losses resulting from the holding of real estate (other than mining property) commissioned prior to 1987 are not subject to the rules at risk. In most cases, any loss resulting from activity subject to the rules at risk is permitted only to the extent of the total amount you have at risk in the activity at the end of the tax year. You are considered at risk in an activity to the extent of cash and the adjusted basis of other assets that you have contributed to the activity and certain amounts borrowed for use in the activity. Any loss denied due to risk limits is considered a deduction from the same activity in the next tax year. See Pub. 925 for a discussion on risky rules. In most cases, all rental real estate activities (with the exception of those of some real estate professionals discussed later) are passive activities. To this end, a rental activity is an activity from which you receive income primarily for the use of tangible goods, rather than for services. For a discussion of activities that are not considered rental activities, see Rental Activities in Pub. 925. Deductions or losses from passive activities are limited. You generally cannot compensate for income, with the exception of passive income, with losses due to passive activities. You also cannot offset income tax, other than passive income, with credits derising from passive activities. Any excess loss or credit is carried forward to the next tax year. The rules for calculating passive activity limits for the personal use of a dwelling unit and for rental properties with active participation are discussed later. For a detailed analysis of these rules, see Pub. 925. Real estate professionals. If you are a real estate professional, fill Line 43 of Schedule E. You are eligible as a real estate professional for the tax year if you meet the following two requirements. More than half of the personal services you perform in all trades or businesses during the tax year in real estate trades or companies in which you participate materially. You perform more than 750 hours of service during the tax year in real estate trades or companies in which you participate materially. If you are eligible as a real estate professional, the rental real estate activities in which you have participated materially are not passive activities. To determine whether you have participated materially in your rental real estate activities, each interest in rental real estate is a separate activity, unless you choose to treat all your interests in rental real estate as a single activity. Do not count the personal services you perform as an employee in real estate trades or businesses, unless you are a 5% owner of your employer. You own 5% if you own (or are considered to own) more than 5% of your employer's outstanding shares, or capital interest or profits. Do not count your spouse's personal services to determine if you have met the requirements listed above to qualify as a real estate professional. However, you can count your spouse's participation in an activity to determine if you have participated materially. If you used the rental property as a house during the year, any income, deductions, gain or loss allocable to such use is not taken into account for the passive limitation of loss of activity. Instead, follow the rules explained in Chapter 5, Personal Use of the Housing Unit (including the Holiday Home). If you or your spouse has been actively involved in a passive rental real estate activity, you may be able to deduct up to $25,000 in loss from your non-passive income activity. This special allowance is an exception to the general rule prohibiting losses greater than income from passive activities. Similarly, you may be able to offset activity credits against non-surly income tax of up to $25,000 after taking into account losses authorized under this exception. Example. Jane is single and has $40,000 in wages, $2,000 in passive income from a limited partnership and $3,500 in passive losses from a rental real estate activity in which she was actively involved. $2,000 of Jane's $3,500 loss offsets her passive income. The remaining loss of $1,500 can be deducted from his $40,000 salary. The special allowance is not available if you were married, lived with your spouse at any time during the year, and are filing a separate return. Maximum special allowance. The maximum special allowance is $25,000 for and married persons filing a joint return for the tax year, $12,500 for married persons who file separate returns for the tax year and who have lived away from their spouses at any time during the tax year and $25,000 for an eligible estate reduced by the special allowance for which the surviving spouse has qualified. If your modified Adjusted Gross Income (SSM) is $100,000 or less ($50,000 or less if you are married separately), you can deduct your loss up to the amount shown above. If your is over $100,000 (more than $50,000 if the marriage deposit separately), your special allowance is limited to 50% of the difference between $150,000 ($75,000 if married deposit separately) and your MAGI. In general, if your MAGI is $150,000 or more ($75,000 or more if you are married deposit a separate deposit), there is no special allowance. In February 2014, Marie purchased a rental home for $135,000 (house $120,000 and land $15,000) and immediately began renting it out. In 2019, she rented all this for 12 months for a monthly rent of $1,125. In addition to her rental income of $13,500 (12 x $1,125), Marie had the following expenses. Marie depreciates residential rental property under MACRS GDS. This means using the straight line method over a payback period of 27.5 years. She uses table 2-2d to find her depreciation percentage. Because she commissioned the property in February 2014, she continues to use this row of Table 2-2d. For the 6th year, the rate is 3.636%. Marie believes that her net rental income or loss for the house is as follows. Marie suffered a net loss for the year. Because she was actively involved in her passive rental real estate business and her loss was less than $25,000, she can deduct the loss upon her return. Marie also meets all requirements so that she does not have to file Form 8582. It uses Schedule E, Part I, to report its income and rental expenses. It enters into its income, expenses and amortization for the house in the A-property column and enters its loss on Line 22. Form 4562 is not required. This chapter deals with certain rental real estate activities that are subject to additional rules. A condominium is most often a dwelling unit in a multi-unit building, but can also take other forms, such as a townhouse or a garden apartment. If you own a condominium, you also have some of the common features, such as land, halls, elevators and service areas. You and other co-owners can pay dues or dues to a special company that is organized to deal with the common elements. Special rules apply if you rent your condominium to other people. You can deduct as rental expenses all expenses discussed in Chapters 1 and 2. In addition, you can deduct contributions or contributions paid for maintaining the common elements. You cannot deduct the special contributions you pay to a condominium management company for improvements. However, you might be able to recover your share of the cost of any improvement by taking the depreciation. If you live in a co-op, you do not own your apartment. Instead, a company owns the apartments and you are a tenant-shareholder in the co-operative housing company. If you rent your apartment to other people, you can generally deduct, as a rental fee, all maintenance costs you pay to the co-op housing company. In addition to maintenance costs paid to the co-operative housing company, you can deduct your direct payments for repairs, maintenance and other rental expenses, including interest paid paid a loan used to buy your shares in the company. You will depreciate your actions in the company rather than the apartment itself. List your depreciation deduction as follows. Encrypt the amortization of all depreciable real estate owned by the company. (Amortization methods are discussed in Chapter 2 of this publication and at the pub. 946.) If you purchased your co-operative stock after its first offer, list the depreciable base of that property as follows. Multiply your cost per share by the total number of shares outstanding. Add to the amount included in a) any mortgage debt on the property on the date you purchased the stock. Subtract from the amount included in b) any mortgage debt that is not for depreciable real estate, such as the portion for the land. Subtract from the expected amount (1) any impairment for the space owned by the company that can be leased but cannot be experienced by tenant-shareholders. Divide the number of your shares by the total number of shares outstanding, including the shares held by the company. Multiply the result of (2) by the percentage in which you have figured (3). It's your depreciation on the stock. Your amortization deduction for the year cannot be higher than the portion of your adjusted base (defined in Chapter 2) in the company's stock that is allocable to your rental property. Payments added to the capital account. Payments for an asset or improvement, or otherwise billed to the company's capital account, are added to the basis of your shares in the company. For example, you cannot deduct a payment used to pave community parking, install a new roof or pay the principal of the company's mortgage. Treat as a capital cost the amount you have been assessed for the capital items. This cannot be more than the amount by which your payments to the company exceeded your share of the company's mortgage interest and property taxes. Your share of interest and taxes is the amount the company has chosen to allocate to you, if it reasonably reflects those expenses for your apartment. If not, list your share in the following way. Divide the number of your shares by the total number of shares outstanding, including the shares held by the company. Multiply the company's deductible interest by the number you understand (1). It's your share of interest. Multiply the company's deductible taxes by the number you understand (1). It's your share of taxes. If you change your home or other property (or part of it) to rent use at any time other than the beginning of your tax year, you must divide the annual expenses, such as taxes and insurance, between rental and personal use. You can deduct as rental costs only the portion of the expense that is for the part of the year the property was used or owned for rental purposes. You cannot deduct amortization or insurance for the part of the year the property was held for However, you can include mortgage interest, mortgage insurance premiums and property tax charges for the part of the year the property was held for personal use when you determine the amount you can deduct in Schedule A. Example. Your tax year is the calendar year. You moved out of your house in May and started renting it on June 1. You can deduct seven-twelfths of your annual expenses, such as taxes and insurance, as rental expenses. Starting in June, you can deduct as a rental fee the amounts you pay for items that are generally billed monthly, such as utilities. When determining depreciation, treat the property as commissioned on June 1. When you change your property for personal rental use (for example, you rent your old home), the amortization base will be the least market value or the base adjusted to the conversion date. If you change your co-op apartment to rent, list your eligible amortization as explained above. (Amortization methods are discussed in Chapter 2 of this publication and at the pub. 946.) The base of all depreciable real estate owned by the co-operative housing company is the lowest of the following amounts. The fair market value of the property on the date you change your apartment to rent use. This is the same measure as the company's adjusted base minus straight-line depreciation, unless that value is unrealistic. The company's adjusted basis in the property on that date. Do not subtract depreciation when determining the company's adjusted base. If you purchased the stock after its first offer, the company's adjusted basis in the property is the amount included in (1) under Amortization (under Co-operatives, around the beginning of this chapter). The fair market value of the property is considered to be the same as the adjusted basis of the company, which has figured in this way less amortization in a straight line, unless the value is unrealistic. To quantify the deduction, use the current depreciation system when converting your home to a rental. In general, this will be MACRS for any conversion after 1986. Treat the property as it is put into service on the conversion date. Example. Your converted home (see previous example under Figure the basis) was available for rent on August 1. Using Table 2-2d (see Chapter 2), the percentage for year 1 beginning in August is 1.364% and the depreciation deduction for year 1 is $2,005 ($147,000 × 0.01364). If you rent part of your property, you must allocate certain expenses between the portion of the property used at rental purposes and the portion of the property used for personal use, as if you did have two separate properties. You can deduct expenses related to the portion of the property used for rental purposes, such as mortgage interest, mortgage insurance premiums and property taxes, as a rental fee in Schedule E (Form 1040 or 1040-SR). You can also deduct in the form of rental fees other expenses that are normally non-deductible personal expenses, such as expenses for electricity or painting outside the home. There is no change in the types of expenses deductible for the personal use part of your property. As a general rule, these expenses can only be deducted if you detail your deductions in Schedule A (Form 1040 or 1040-SR). You cannot deduct any part of the cost of the first telephone line, even if your tenants have unlimited use of it. You don't have to divide expenses that belong solely to the rental portion of your

property. For example, if you paint a room that you rent or pay liability insurance premiums when renting a room in your home, your total cost is a rental expense. If you install a second telephone line strictly for your tenant's use, all the cost of the second line is deductible as a rental expense. You can deduct depreciation from the share of the house used for rental purposes as well as from the furniture and equipment you use for rental purposes. If you do not rent your property to make a profit, you cannot deduct rental fees beyond the amount of your rental income. You cannot deduct a loss or defer to the following year rental expenses that are more than your rental income for the year. In January, Eileen bought a condominium apartment to live in. Instead of selling the house she lived in, she decided to change it to rental property. Eileen chose a tenant and started renting the house on February 1. Eileen charges $750 a month for the rent and collects it herself. Eileen also received a $750 security deposit from her tenant. Because she plans to return it to her tenant at the end of the lease, she does not include it in her income. Its rental costs for the year are as follows. Eileen must divide property taxes, mortgage interest and fire insurance between the personal use of the property and the rental use of the property. It can deduct eleven twelfth of these expenses in the form of rental fees. It may include the balance of property taxes and mortgage interest when determining the amount it can deduct from Schedule A if it details. It cannot deduct the balance from the fire insurance because it is a personal expense. Eileen bought this house in 1986 for $35,000. His property tax was based on values estimated at $10,000 for the land and $25,000 for the house. Before changing it to rental property, Eileen added several improvements to the home. It believes that its adjusted base is as follows. On February 1, when Eileen changed her home to the property had a fair market value of $152,000. Of this amount, $35,000 was for the land and $117,000 for the house. Because Eileen's adjusted base is less than fair market value as of the date of the change, Eileen uses $39,000 as a depreciation base. As indicated for residential rental properties, Eileen must use the straight line depreciation method during the GDS or ADS payback period. She chooses chooses 27.5 years GDS recovery period. She uses table 2-2d to find her depreciation percentage. Since it commissioned the property in February, the percentage has been 3.182%. On April 1, Eileen purchased a new dishwasher for the rental property for $425. The dishwasher is a personal property used in a rental real estate activity, which has a payback period of 5 years. It uses Table 2-2a to find the percentage for year 1 under Semi-annual Convention (20%) to quantify its depreciation deduction. On May 1, Eileen paid $4,000 to have an oven installed in the house. The oven is a residential rental property. Because it commissioned the property in May, the percentage of Table 2-2d is 2.273%. Eileen believes that her net rental income or loss for the home is as follows. Eileen uses Schedule E, Part I, to report its rental income and expenses. It enters its income, expenses and amortization of the house in the column of Property A. Since all assets were commissioned this year, Eileen must use Form 4562 to quantify depreciation. See the instructions for Form 4562 for more information on how to prepare the form. If you have a personal use of a dwelling unit (including a holiday home) that you rent, you must divide your expenses between rental use and personal use. In general, your rental costs will not exceed your total expenses multiplied by a fraction, the denominator of which is the total number of days of use of the dwelling unit and whose numerator is the total number of days actually rented at a fair rental price. Only your rental expenses can be deducted from Schedule E (Form 1040 or 1040-SR). Some of your personal expenses may be deductible in Schedule A (Form 1040 or 1040-SR) if you detail your deductions. You also need to determine if the unit is considered a home. The amount of rental costs you can deduct may be limited if the unit is considered a home. Whether a dwelling unit is considered a home depends on the number of days during the year that are considered days of personal use. There is a special rule if you used the unit as a home and rented it for less than 15 days during the year. Housing. A dwelling unit includes a house, an apartment, a condominium, a mobile home, a boat, a holiday home or a similar property. It also includes all structures or other property belonging to the housing unit. A dwelling unit has basic housing, such as sleeping space, toilets and kitchen. A dwelling unit does not include the property (or part of the property) used only as a hotel, motel, inn, or similar establishment. The property is used only as a hotel, motel, hostel, or similar property if it is regularly available for occupancy by paying guests and is not used by an owner as a home during the year. Example. You rent a room in your home which is always available for short-term occupancy by paying guests. You do not use the room yourself and you only allow paying guests to The bedroom. This room is used only as a hotel, motel, hostel, or similar establishment and is not a dwelling unit. If you use a unit for rental and personal purposes, divide your expenses between rental and personal use based on the number of days used for each purpose. When you divide your spending, follow these rules. Any day that the unit is rented at a fair rental price is a rental use day, even if you used the unit for personal use that day. (This rule does not apply to determine if you used the device as a home.) Any day that the unit is available for rent, but not actually rented is not a day of rental use. Example. Your beach cottage was available for rent from June 1 to August 31 (92 days). Except for the first week of August (7 days), when you could not find a tenant, you rented the cottage at a fair rental price during this period. The person who rented the cottage for July allowed you to use it over the weekend (2 days) without any reduction or refund of the rent. Your family has also used the cottage during the last 2 weeks of May (14 days). The cottage was not used at all until May 17 or after August 31. You consider the portion of cottage expenses to be treated as rental expenses as follows. The cottage was used for the rental of a total of 85 days (92 - 7). The days when it was available for rent but not rented (7 days) are not days of rental use. On the weekend of July (2 days) you used it is renting use because you received a fair rental price for the weekend. You used the cottage for personal use for 14 days (the last 2 weeks in May). The total use of the cottage was 99 days (14 days of personal use - 85 days of rental use). Your rental fee is 85/99 (86%) cottage fees. When you determine if you used the cottage as a house, the weekend of July (2 days) you used it is considered a personal use, even if you received a fair rental price for the weekend. Therefore, you had 16 days of personal use and 83 days of rental use for this purpose. Because you have used the cottage for personal use for more than 14 days and more than 10% of the days of rental use (8 days), you have used it as a house. If you have a net loss, you may not be able to deduct all rental expenses. See Housing unit used as next home. Used as a house and rented 15 days or more. If you use a dwelling unit as a home and rent it out for 15 days or more include all your rental income in your income. Since you have used the unit for personal purposes, you must divide your expenses between rental use and personal use described above in this chapter under Dividing Expenses. Personal user fees are not deductible as rental fees. If you had a net profit from renting the unit for the year (i.e. if your rental income is greater than your total rental expenses, including amortization), deduct all of your rental costs. You don't need to use the 5-1 spreadsheet. However, if you have had a net loss of the unit of housing for the year, your deduction for certain rental expenses is limited. To encrypt your deductible rental costs and any postponement to next year, use the 5-1 worksheet. Accelerated Cost Recovery System (CASARA), mars amortization (see also Accelerated Cost Recovery System modified (MACRS)) Effective date, Amortization Methods Accounting Methods Accumulation method, accumulation method. Cash method, Cash method. Constructive receipt of income, cash flow method,, More information. Taxpayer accumulation method, method of exercise. ACRS (Accelerated Cost Recovery System) Effective Date, Active Participation, Active Participation Amortization Methods. Non-profit activities, Duplex. Additions to the property, additions or improvements to the property. (see also Improvements) Base, Base Increases, Additions or Improvements. MACRS recovery period, additions or improvements to the property. Adjusted deduction Amortization of MACRS, Adjusted Base Adjusted Income Adjusted (AGI) Modified (see Adjusted Gross Income Modified (MAGI)) Early Rent, Early Rent. Security deposits, security deposits. Advertising, Types of Expenditures Expenditure Distribution Property change to rental use, Payments added to capital account. How to divide expenses, divide expenses Part of leased property, Rent part of the property, how to divide expenses. Personal Use of Rental Property, Personal Use of Rental Property, Personal Use of Housing Unit (including Vacation Home) Alternative Amortization System (ADS) Election, ELECTION ADS MACRS, MACRS depreciation, Table 2-2d. Alternative Minimum Tax (AMT) Accelerated amortization methods, Alternative Minimum Tax (AMT). Apartments Basement Apartments, Examples. Housing units, Housing unit. Assessment fees, settlement fees and other costs. Maintenance assessments, Local Improvement Assessments. Assessments, Local (see Local Assessments) Help (see Tax Aid) Mortgage Assumption, Mortgage Assumption. Lawyer's fees, settlement fees and other fees., Base increases. MACRS RECOVERY Automobiles, Property Categories Adjusted Base, Adjusted Basic Assessments for Local Improvements, Local Improvement Assessments. Base other than cost, Base other than base cost, Base costs Decreases to, Decreases at the base. Cost capitalization versus deduction costs relative to capitalization costs. No greater than the base, cost or other basis Full fair market value, fair market value. Increases to, Increases to base. MACRS depreciable base, Base of Depreciable Property Property changed to rental use, Basis of Property Changed to Rental Capital expenditures Deductions vs. effect on resent, Deducting vs. capitalizing costs. Local taxes on benefits, taxes on local services. Mortgages, payments to be obtained, expenses paid to obtain a mortgage. MACRS Cars Payback Periods, Property Classes Under GDS Cash Taxpayer Method, Cash Method. Loss of losses, exception for rental real estate with charitable active participation Use of property, gift of use of the property. Cleaning and maintenance, types of expenses Closing costs, settlement costs and other costs. Commissions, Types of Expenditure Computers Recovery Periods MACRS, Property Classes under GDS Condominiums, Condominiums, Housing Unit. Constructive receipt of income, cash flow method,, More information. Co-operative Housing, Co-operative Apartments, Co-operatives, Housing Unit. Cost base, basic cost credit reports, settlement fees and other costs. Credits Credits residential energy credits, Decrease at the base. Days of personal use, What is a day of personal use? Days used for repairs and maintenance, Days used for repairs and maintenance. Cost capitalization versus effect on the basis, Deduction relative to capitalization costs. Amortization (see Amortization) Limitations on, Form 4562. Passive Business Losses (see Passive Activity) Amortization, Amortization of alternative rental property amortization system (ADS) (see Accelerated Modified Cost Recovery System (MACRS)) Base (see base) Change in use of property for hire, Well modified in rental use Exact amount of, Claim of correct amount of the method of reduction of the depreciation balance , What rental property can be depreciated? Eligible property, What rental property can be depreciated? First-year expenses, deduction under section 179. MACRS (see Accelerated Modified Cost Recovery System (MACRS)) Methods, depreciation methods, calculation of your property property property deduction, What rental property can be depreciated?, property you own. Rental costs, Amortization. Rented property, rented property. Section 179 deduction, section 179 deduction. Special amortization allowances, amortization straight line method, amortization methods Lifespan, Which rental property can be depreciated?, Property with a determinable lifespan. Vacant rental, vacant rental property. Discount, bonds and notes issued to (see original issue discount (OID)) Expenditure distribution (see Expenditure Distribution) Definition Housing Units, Housing Unit. Fair rental price, Just rental price. Personal use of the personal use unit of the dwelling unit (including the holiday home), What is a day of personal use? Fair Market Value (FMV), Fair Market Value. Fair rental price, Division fees, Just rental price. Original loan fees, points, settlement fees and other costs. Points (see points) Settlement and other fees, and other costs. Tax preparation costs, legal fees and other professional fees. First-year expenses, deduction under section 179. Form 1040 or 1040-SR Not rented for profit income, Where to report. Part of leased property, Rental of a portion of income and expenses for rental property, declaration of rental income, expenses and losses Appendix E, Appendix E (form 1040 or 1040-SR) Form 1098 Mortgage interest, Form 1098, Statement of Mortgage Interest. Form 4684 Victims and How to report. Form 4797 Commercial Property Sales, How to Report. Form 8582 Passive Activity Losses, Form 8582., Form 8582 not required. Home Main House, Main House. Use as rental property (see Home Use) Identity theft, Solving Identity Theft Problems Related to Tax. Improvements, Table 1-1. Examples of improvements (see also Repairs) Assessments of local improvements, Assessments of local improvements. Base, Base Increases, Additions or Improvements. Depreciation of leased property, leased property. MACRS recovery period, additions or improvements to the property. Insurance, Types of expenses Loss of accident or theft loss payments, Decrease at the base. Change of ownership to rental use, property changed to use rental Fire Insurance Premiums, cost base, settlement fees and other costs. Part of the leased property, Rental of a portion of the real estate premiums paid in advance, insurance premiums paid in advance. Title insurance, cost base, settlement fees and other costs. Interest payments, interest charges. (see also Mortgages) Original loan fees, points Rental fees, types of expenses Base of land costs, Cost of separation of land and buildings. Depreciation, Earth. Leases Cancellation of payments, Cancellation of a lease. Equipment rental, equipment rental. Limits losses and credits of passive activity, passive activity limits Rental losses, limits on rental losses Assumption costs, settlement fees and other costs. Costs related to obtaining or refinancing, base of costs, settlement costs and other costs. Low or no interest, Low or no interest loans. Original fees, local ratings points, assessments for local improvements. Losses (see Gains and Losses) Missing Children, Photographs of, Recalls Modified Accelerated Cost Recovery System (MACRS), Depreciation macrs, deprecation macrs under ads Additions or improvements to the property, additions or improvements to the property. Adjusted Base, Adjusted Basic Alternative Amortization System (ADS), Macrs Amortization, Macrs Depreciation Under the Base of ADS Other than Cost, Non-Cost Agreement Base, Cost Base Base, Base Base Base Operating Date, Excluded Property Amortization Methods, Excluded Property General Amortization System (GDS), , Calculating your amortization deduction Non-residential property, Real Estate categories under GDS Property used in rental activities (2 Table-1), Table 2-1. MACRS recovery periods for property used in leasehold recovery periods, Table 2-1. Recovery periods macrs property used in rental activities, 5, 7 or 15 years owned. Residential rental property, Property classes under GDS, Residential rental property. Special Amortization Allowances, Special Amortization Provision Modified Adjusted Gross Income (SSPS), Modified Adjusted Gross Income (SSPS). Mortgages, Expenses paid to get a mortgage. Assumption of, cost base, Assumption of a mortgage. Mortgage. from property to rental use, property changed at the end of rental use, IDO, loan or mortgage. Interest, interest, property changed to rental use, rental of a portion of property mortgage insurance premiums, settlement fees and other costs. Part of the leased property, Rental of part of the original Emission Discount (OID) property, Points, Loan or Mortgage Purpose. Partial interest costs, partial interest. Income, partial interest. Passive activity Maximum Special Allowance, Maximum Special Allowance. Personal property Rental income of goods or services. Personal use of rental property, payments added to the capital account,Personal use of the dwelling unit (including the holiday home) (see also Modified property for rental use) Commissioning date, commissioning, placement at points of service, types of expenses, points, settlement fees and other costs. Pre-rental fees, pre-rental fees. Main residence (see House) Profit, unsealed property for, Duplex. Property changed to lease, Payments added to the capital account. Base, Base of Property Changed to Rental Use Publications (see Tax Aid) Real Estate Professionals, Real Estate Professionals. Property taxes, property taxes. Trades or real estate companies, real estate trades or companies. Record-keeping requirements Travel and transportation expenses, local transportation costs, travel expenses. Recovery periods, property courses under GDS rent, settlement fees and other costs. Early rental, early rent. Fair price, fair rental price. Rental costs, rental costs Advertising, Types of expenses Breakdown between rental and personal uses, Distribution of expenses Change of ownership to rental use, Properties modified for rental use Cleaning and maintenance, Types of expense commissions, Types of amortization of expenses, Amortization. Residential unit used as a house, housing unit used as a rental of home equipment, equipment rental. House, property also used as, Property rental also used as your home. Improvements, Table 1-1. Examples of insurance improvements, types of expenses, insurance premiums paid in advance. Interest payments, types of expenses, interest costs. Local transportation costs, types of expenses, local transportation costs. Part of the leased property, renting part of the property points, types of expenses, points of pre-rental, pre-rental fees. Rental payments, types of expense repairs, types of expenses, repairs and improvements Property sale, vacant during sale. Tax preparation costs, legal fees and other professional fees. Types of expenses Renter, paid by, Expenses paid by the tenant. Travel expenses, types of expenses Utilities, types of expenses Vacant rental property, vacant rental properties. Rental income Early rent, Early rent. Cancellation of rental payments, cancellation of a lease. Residential unit used as a house, dwelling unit used as a home lease with option to purchase, Rental with option to purchase. Not rented for profit, Not leased for profit Partial interest, Partial interest. Part. receipts from tenant, property or services. Reporting, accumulation method, what forms to use the security deposit, security deposits. Services received from tenant, property or services. Rent not collected, rent not collected. Used as a home, rental property also used as your home. Rental losses, exception for rental real estate with active participation (see also Gains and losses) (see also Passive activity) Repairs, types of expenses, repairs and improvements (see also Improvements) Assessments for maintenance, Assessments for local improvements. Personal use of the rental property exception for days used for repairs and maintenance, Days used for repairs and maintenance. Sale of real estate, vacant during the sale. Gain or loss, sale or exchange of rental property., How to report. Main house, Sale of the main house used as rental property. Deductions under section 179, section 179 deduction. Security deposits, security deposits. Settlement fees, settlement fees and other fees. Shared equity financing agreements, shared equity financing agreements. Special Amortization Allowances, Special Amortization Allowance Spouse Material Participation, Participating Spouse. Standard mileage rates, Local transportation costs. Investigations, settlement fees and other costs. Tables and figures Improvements, examples (Table 1-1), Table 1-1. Examples of improvements Optional TABLES MACRS (Table 2-2d), Table 2-2d. Optional MACRS tables (tables 2-2a, 2-2b and 2-2c), tables 2-2a, 2-2b and 2-2c. MACRS recovery periods for property used in rental activities (Table 2-1), Table 2-1. MACRS Clawback Periods for Property Used in Rental Activities Residential Energy Credits Tax Credits, Effect on Base, Decreases at The Base. Tax Assistance, How to Get Tax Assistance Tax Preparation Costs, Legal Fees and Other Professional Fees. Taxes Deduction, Types of expenses Local taxes on benefits, Local taxes on benefits. Property taxes, property taxes. Transfer taxes, settlement fees and other costs. Flight losses, theft. Title insurance, settlement fees and other fees. Transfer taxes, settlement fees and other costs. Travel and transportation expenses Local transportation costs, types of expenses, local transportation costs. Record-keeping, travel expenses. Rental costs, types of expenses Standard mileage rates, local transportation costs. Expenses.