STESSA

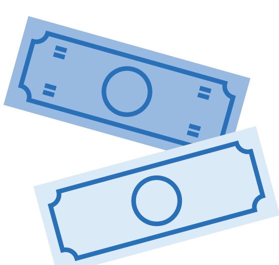
11 Top Tax Deductions for Rental Property Owners

2019 EDITION

1 Depreciation

Depreciation is one of the biggest and most important deductions for rental property owners because it reduces taxable income without impacting actual cash flow. Since land cannot be depreciated, the preferred strategy is to allocate as much of the property's purchase price to the building as possible to maximize your depreciation expense.

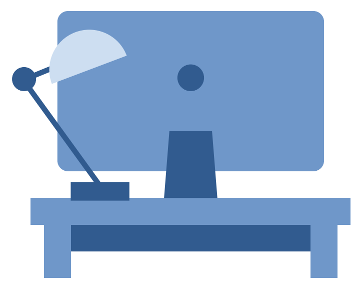
You can often also use cost segregation studies and 100% bonus depreciation to greatly increase your depreciation deduction, and, if you qualify as a real estate professional for tax purposes, you can even use these passive losses to offset ordinary income from other sources.



100% bonus depreciation can greatly increase your deductions!

2 Home Office

As a rental property owner you can dedicate a room, or a portion of a room, exclusively for home office purposes to claim what is often a significant tax deduction. The presence of an official home office also allows you to deduct local transportation expenses including auto mileage. Without a home office, a trip from your home to your local rental properties will be considered a personal expense.



Per IRC § 280A, a home office must be used: (1) regularly and exclusively as the principal place of business; **and** (2) regularly and exclusively as a place to meet or deal with patients, clients, or customers in the normal course or trade of business. If your work is conducted in the field your home office must be used regularly and exclusively to conduct the administrative tasks of your business (e.g. bookkeeping).

3 Transportation

It's common for landlords to travel to rental properties located within driving distance. You might also travel to the bank, the hardware store, or to meet with your broker, your attorney, and other key partners and suppliers. If you have an official home office and plan to take a tax deduction for local transportation, It's important to keep an IRS compliant log or use software like MileIQ and Stessa to properly track all miles driven for business purposes. The standard mileage rate is $0.545/mile for 2018 and $0.58/mile for 2019.

Standard mileage rate for business miles is $0.545/ mile in 2018 going up to $0.58 for 2019.

4 Repairs and Maintenance

When you incur repair and maintenance or renovation expenses, you'll want to classify as much as possible as standard repairs and maintenance to deduct them in the year incurred. More significant projects that qualify as capital improvements are depreciated over several years, which reduces the value of your current year deduction.

Save all invoices and receipts to easily determine whether each item can be deducted under one of the three safe harbors, 100% bonus depreciated, or must be capitalized.

The best practice here is to have all of your renovation, repair, and maintenance invoices and receipts itemized by your vendors so you, or your CPA, can easily determine whether or not each line item can be expensed as usual, deducted under one of three safe harbors available to landlords, deducted via 100% bonus depreciation, or must be capitalized.

5 Employees and Independent Contractors

Money paid to W-2 employees and independent contractors to help run your rental property business are fully tax deductible on Schedule E of your tax return.

If you're a real estate professional for tax purposes, provide substantial services to your short-term guests, or are looking to use the 20% QBI pass-through deduction (199A) you're required to send and file 1099s for any independent contractor you pay more than $600 during the calendar year.

6 Professional Fees

Professional fees including legal, accounting, and property management fees related to your rental properties are fully deductible and reported directly on Schedule E of your tax return.

7 Interest

Interest on loans used to fund your rental property business including mortgage interest, interest from a HELOC used within your rental business, and any other interest is fully deductible on Schedule E of your tax return.

As opposed to primary & secondary residences where you can only deduct up to $750K interest, rental property interest is fully deductible including both mortgage and HELOCs.

This is an important distinction for pure rental properties because interest is only deductible on up to $750,000 of principal for primary and secondary residences.

8 Taxes & Insurance

All taxes, with the exception of income taxes, that are incurred as a result of owning a rental property are deductible on Schedule E. These typically include property taxes, school district taxes, and special easements or land taxes.

Unlike your primary residence, there is no cap on the amount of property tax expense that can be deducted on properties held for investment purposes.

Insurance including homeowners, hazard, liability, and flood insurance are fully deductible on Schedule E of your tax return.

9 Education

Education expenses are tax deductible when incurred for the purpose of maintaining or improving the skills needed in your rental property business. Note that these expenses are also only deductible when incurred after you start your rental property business.

For example, you can deduct the amount spent to attend a property management training program, and related travel costs, only if you already have an existing rental property business. If you have yet to purchase and place your first rental property in service, then these training expenses are not deductible. Notably, training costs incurred to learn how to "fix and flip" houses are generally not deductible since it's considered a new skill set and does not maintain or improve the skills used in your existing rental property business.

10 Other Expenses

Other expenses such as HOA fees, bank fees, subscriptions, meals (50%), and other miscellaneous expenses related to your rental business are also deductible on Schedule E.

11 Additional Methods to Defer and Reduce Taxes

1031 Exchanges

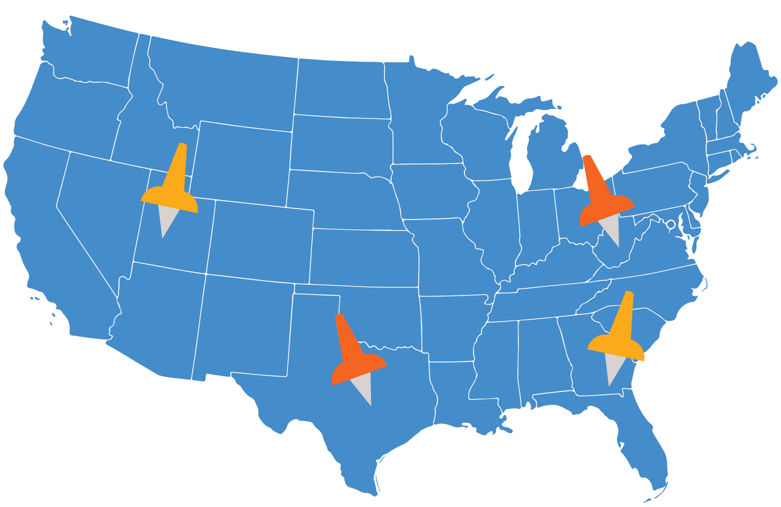
1031 Exchanges allow you to defer both the capital gains tax and depreciation recapture from the sale of a property and invest the proceeds into another "like-kind" property, often called "trading up". While you ultimately have to pay tax at some point down the line, with the notable exception of inheritance, this allows you to use the entire proceeds to purchase a new property, thereby increasing the size of your portfolio at a faster pace than would otherwise be possible if you were paying capital gains taxes upon each sale.

It's important to note that 1031 exchanges have a very strict timeline that needs to be followed and generally require the assistance of a qualified intermediary (QI).

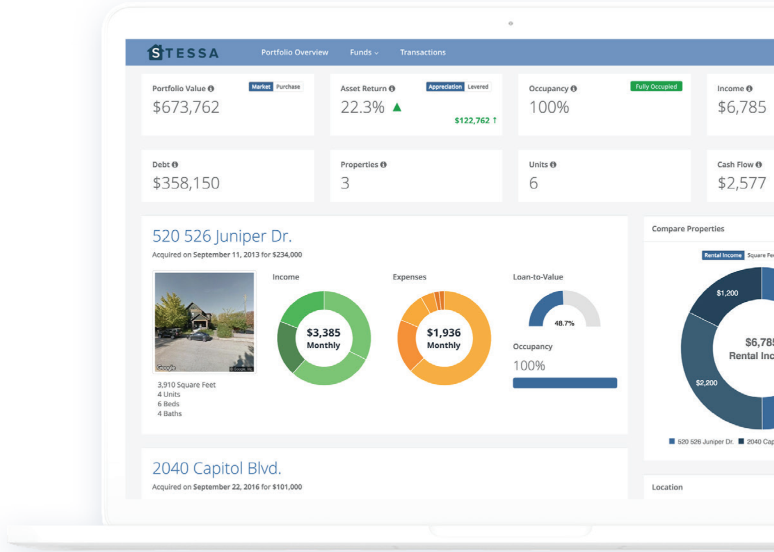
Opportunity Funds

Introduced by the Tax Cuts and Jobs Act, Opportunity Funds allow you to defer and reduce the capital gains tax from the sale of any capital asset. Unlike a 1031 exchange, you only have to redeploy the capital gain, not the entire sales proceeds.

If you invest the capital gains in an Opportunity Fund within 180 days from sale, and hold it for 5 years you'll reduce your original taxable capital gain tax liability by 10%. If you hold it for an additional 2 years, the original gain liability is reduced by another 5%. If you then hold your investment for another 3 years, the new capital gain from the Opportunity Fund itself becomes fully tax exempt.



Opportunity Zones allow you to defer and reduce capital gains tax from the sale of any capital asset.



Meet Stessa

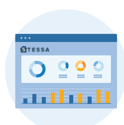
AUTOMATIC TRACKING & REPORTING FOR RENTAL OWNERS

Make tax time a breeze

Get time-saving tools that make reporting painless and help maximize your deductions--from tax-ready financials to end-of-year performance statements.

Save time on income & expense tracking

Link your bank accounts to Stessa and transactions update in real-time. Categorize transactions into tax-ready categories for easy reporting.



Get key performance metrics in one dashboard

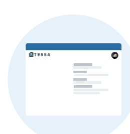
View your entire portfolio in one streamlined report that automatically calculates key metrics and provides a clear picture of your investments.

Stay organized with receipt capture

Keep track of and scan receipts right from the phone app. Stessa automatically reads, categorizes and stores them for you - no more data entry!

Keep your data safe with bank-grade security

Designed from the ground up with multiple layers of security. Stessa uses bank-grade encryption to keep your financial data safe and secure.



Built by rental investors for rental investors

Stessa was built from the ground up with rental investors in mind. We take care of all the tedious tracking and reporting details so you don't have to.

This guide should equip most rental property owners with basic tax strategies needed to minimize next year's tax bill. It's also a great source of ideas and possible scenarios to explore with your CPA. This is not an exhaustive list of all available real estate tax strategies and there may be additional actions you can take to further reduce your tax liability.

For more information on how the strategies discussed in this guide might apply to your specific situation, and tax compliance in general, we recommend consulting directly with your CPA. Also see the official guidance provided by the IRS, other tax content developed by Stessa, and further resources available via The Real Estate CPA.

While reasonable efforts were taken to furnish accurate and up-to-date information, we do not warrant that the information contained in and made available through this guide is 100% accurate, complete, and error-free. We assume no liability or responsibility for any errors or omissions in this guide.

STESSA

Stessa gives the millions of real estate investors with single-family rentals and multifamily buildings a powerful new way to track, manage, and communicate the performance of their real estate assets. Tracking rental property finances and monitoring performance used to be time-consuming and tedious. Now, Stessa's smart income and expense tracking technology makes it effortless, automating the busy work and saving property owners valuable time. Get a current view of how your portfolio is performing, and get the insights you need to make decisions without the manual spreadsheet updates.

How It Works

Take a few minutes to add your properties, link your bank accounts and everything updates in real-time.
To learn more get started with a free account, go to Stessa.com.

THE REAL ESTATE CPA

This content was created by Stessa in partnership with The Real Estate CPA.

Thomas Castelli, CPA is a Tax Strategist and real estate investor who helps other real estate investors keep more of their hard-earned dollars in their pockets, and out of the government's.

The Real Estate CPA is a 100% virtual accounting firm that helps individual real estate investors, syndicates, and private equity funds save thousands in taxes and grow their business with outsourced accounting and CFO services. While traditional CPAs will take on clients across numerous industries and become "generalists," we only service real estate investors or business owners in the real estate industry. We eat, breathe, and live real estate!

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