



# Rental Income and Expenses - Real Estate Tax Tips

You generally must include in your gross income all amounts you receive as rent. Rental income is any payment you receive for the use or occupation of property. Expenses of renting property can be deducted from your gross rental income. You generally deduct your rental expenses in the year you pay them. IRS Publication 527, Residential Rental Property includes information on the expenses you can deduct if you rent a condominium or cooperative apartment, if you rent part of your property, or if you change your property to rental use.

## When to Report Income

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

For more information about when you constructively receive income, see IRS Publication 538, Accounting Periods and Methods.

## Advance Rent

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

## Example:

You sign a 10-year lease to rent your property. In the first year, you receive \$5,000 for the first year's rent and \$5,000 as rent for the last year of the lease. You must include \$10,000 in your income in the first year.

## Security Deposits

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

amount you keep in your income in that year.

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

## Expenses Paid by Tenant

If your tenant pays any of your expenses, the payments are rental income. You must include them in your income. You can deduct the expenses if they are deductible rental expenses. See Rental Expenses in Publication 527, for more information.

## Example One:

Your tenant pays the water and sewage bill for your rental property and deducts it from the normal rent payment. Under the terms of the lease, your tenant does not have to pay this bill.

## Example Two:

While you are out of town, the furnace in your rental property stops working. Your tenant pays for the necessary repairs and deducts the repair bill from the rent payment. Based on the facts in each example, include in your rental income both the net amount of the rent payment and the amount the tenant paid for the utility bills and the repairs. You can deduct the cost of the utility bills and repairs as a rental expense.

## Property or Services in Lieu of Rent

If you receive property or services, instead of money, as rent, include the fair market value of the property or

services in your rental income.

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

## Example:

Your tenant is a painter. He offers to paint your rental property instead of paying 2 months' rent. You accept his offer. Include in your rental income the amount the tenant would have paid for 2 months' rent. You can include that same amount as a rental expense for painting your property.

## Personal Use of Vacation Home or Dwelling Unit

If you have any personal use of a vacation home or other dwelling unit that you rent out, you must divide your expenses between rental use and personal use. See Figuring Days of Personal Use and How To Divide Expenses in IRS Publication 527. If your expenses for rental use are more than your rental income, you may not be able to deduct all of the rental expenses. See How To Figure Rental Income and Deductions in IRS Publication 527.

## Additional Resources

IRS Publication 527, Residential Rental Property

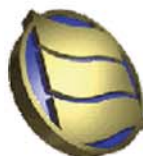
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