## 2023 · IS MY RENTAL PROPERTY TAX DEDUCTIBLE?

Do you spend more than

750 hours per year working

in real estate activities, and

are those hours greater

than 50% of all hours (at all

jobs) you work in a year?

Do you have any unused

rental expense deductions

in the current tax year

or suspended Passive

Activity Losses (PALs) from

prior tax years?

Any positive net rental

income will be taxed as

ordinary income for the

current tax year. The

additional 3.8% net

investment income tax (NIIT)

may apply. A QBI deduction

may also apply, depending

on your situation.

of \$100,000 to \$150,000.

Yes

Yes

No

No



Start Here

Do you rent out your property more than 14 days per year?

It is considered a Personal-Use Property.

You do not need to report any rental income on your tax return. No rental expense deductions are allowed. Itemized deductions may be allowed, if applicable.

Any unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs), and can be used to offset other passive activity income in future tax years. No losses against ordinary income are allowed for this tax year.

If there's still time left in the year, you may be able to change the classification of your property. Renting it out more (and reducing personal use) may enable you to deduct more expenses against your rental property.

Does your personal use in the property exceed the greater of: (1) 14 days or (2) 10% of the days you rent out your property at fair market rates?

It is considered a Mixed-Use Property.

Yes

No

Report all rental income on the appropriate schedule of your tax return. Qualified rental expense deductions and itemized deductions (if applicable) must be allocated proportionally between rental vs. personal use.

Do you have any unused rental expense deductions in the current tax year or suspended Passive Activity Losses (PALs) from prior tax years?

Yes

You may be allowed a special allowance of up to \$25,000 (if MAGI is below \$100,000) of passive activity losses that may be used to offset ordinary income. Allowance phases out between the MAGI range

Do you successfully meet the "Material Participation" criteria and "Real Estate Professional" (REP) status as defined for tax purposes?

It is considered a Rental Property (Passive Activity).

Yes

No

Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.

Do you successfully meet the "Active Participation" test as defined for tax purposes (own at least 10% of the property and make management decisions)?

Is your MAGI under \$150,000?

It is considered a Rental Property (Non-Passive Activity).

Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.

Positive net rental income is taxed as ordinary income, but is not subject to the 3.8% NIIT. A QBI deduction may apply, depending on your situation. Conversely, any losses resulting from your rental properties may be used to offset ordinary income on your tax return.

No losses are allowed this tax year. Unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs). Consider employing AGI/MAGI reduction techniques if it makes sense for your financial situation.

No



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