



TADD'S INVESTORS' TAX TIPS

In order to become a savvy investor it's very important to know how to run your investment property like a business. Our goal at TADD Realty, Inc. is to have you get an annual "Tax Refund" that's a Tadd above the rest. To maximize investment property tax deductions, it's important to work with an accountant who is knowledgeable and experienced in real estate tax law. Following is a list of Real Estate tax deductible expenses that will help you prepare your tax return.

INTEREST

Financing interest incurred on loans, credit lines, and mortgages can be deducted. These financing charges are related to the acquisition of properties. Mortgage interest goes on Form 1098. Other interest expenses go on Form 4952.

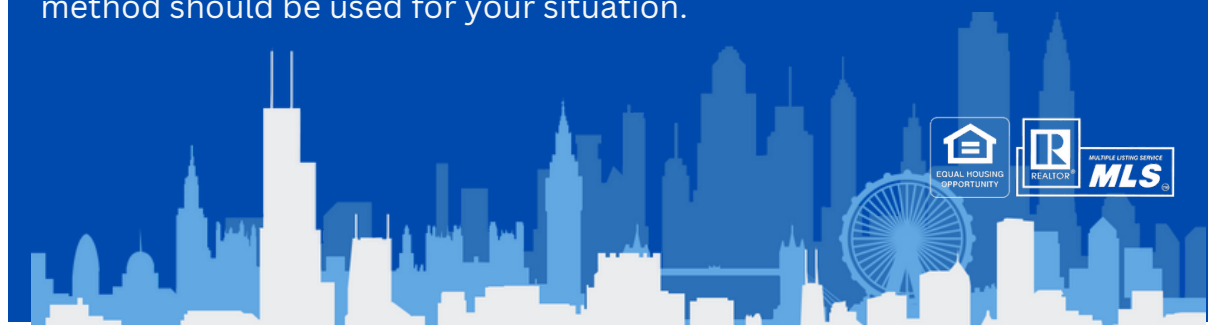
TRAVEL

Whether local or long distance, travel-related expenses can be deducted by real estate investors. This includes mileage accumulated on your car going to properties that you own. If you are going out of town, use of a rental car, airplane ticket, dinner, and hotel accommodations can be deducted.

HOME OFFICE

If you have a dedicated space in your home for your real estate business, you can deduct that portion of your home. It's important that the space not be used for anything else. The space should actually show that it has business use (i.e., printer, computer, desk). It also needs a door.

The deduction works by calculating the square footage being used or by the percentage of the total home. There are different ways to arrive at the final number. It's best to work with your accountant to understand which method should be used for your situation.





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EMPLOYEES & CONTRACTORS

If you've hired employees or use contractors, you can deduct their wages (and bonuses). For some investors, labor deductions make up a significant portion of their overall deductions. Certain rules define if someone is an employee, so check with your accountant to be sure that you can deduct employee wages.

PROFESSIOAL SERVICES

Professional services include property management companies, legal services and accounting-related services.

INSURANCE

Insurance paid to cover your properties and contractors or rental insurance is deductible.

UTILITIES

If you have single-family rentals where tenants pay utilities, this may not apply. But if you have a multi-unit building, there are utilities that won't be covered by tenants.

REFINANINC COSTS

Refinancing a mortgage is a re-amortization of the loan. Refinancing will adjust (up or down) the amount of interest that an investor is paying and the amount they can deduct.

BROKER COMMISSIONS

Broker commissions are charged for placing tenants in an investor's rentals. Fees vary, but one month's rent is common. Investors can deduct this commission.





Homeowners Association

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HOA FEES

Rental property owners can deduct HOA fees that they are paying (vs. the tenant paying). HOA fees are reported on Schedule E of Form 1040.

REPAIRS & MAINTENCE

Repairs and maintenance may sound like the same thing. But for tax deduction purposes, they have different meanings. IRS Publication 535 (page 4) outlines the differences between repairs and maintenance. A repair applies to betterment, restoration, or adaption (BRA). Repairs must be taken as a depreciation expense. They are considered capital expenditures and are meant to improve the property and extend its life.

So what exactly is meant by BRA. The following will help in differentiating between the three terms:

- Betterment — Making a property better and improving it from where it was.
- Restoration — Restoring a property to working condition. As an example, the restoration of a historic home.
- Adapt — Adapting a property to a new use case.

Maintenance expenses can be deducted in the year done. These include toilet repairs, changing air filters, painting the outside of the building, or fixing a broken window.

Yes - we used the term toilet “repair” above, but this is a routine repair. Such a repair keeps the property in normal operating condition but does not improve it.





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CASUALTY LOSSES

A casualty loss is incurred due to fire, theft, or disasters related to natural events such as floods, earthquakes, hurricanes, tornados, or volcanic eruptions. Investors cannot deduct the loss of future earnings or time spent cleaning up after the disaster. A casualty loss also does not include normal wear and tear or progressive deterioration.

DEPRICIATION

We touched on depreciation in the repair section above. Depreciable items are generally those that are capital expenses. On a residential investment property, investors can deduct depreciation expenses over 27.5 years.

To figure out the amount of annual depreciation expense, take the cost of the item being depreciated and divide it by 27.5. For example, if an AC unit for a single-family rental cost \$2,000, the annual depreciation will be $\$2,000 / 27.5 = \72.72 .

Some investment property expense deductions are easy to figure out, such as HOA fees, broker commissions, and professional services. Others require more diligence and aren't as straightforward. These include depreciation and repairs vs. maintenance. To ensure deductions are taken properly, investors should work with their tax advisors.

