

Reporting income from rental of a dwelling unit is not a one-tax-rule-fits-all

- IRC 183 Activities Not Engage in for Profit
- IRC 280A Rental of Vacation Homes
- •

IRC 183

Activities Not Engaged in for Profit

- How often does this situation occur?
- How about rental to family members at less than fair market value?
- If you don't rent your property to make a profit, you can't deduct rental expenses in excess of the amount of your rental income.
 - No losses allowed
 - No carryforwards

IRC 280(A) – Disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.

- ...no deduction otherwise allowable under this chapter shall be allowed with respect to the use of a dwelling unit which is used by the taxpayer during the taxable year as a residence...
- There are three categories of usage that frame the general vacation home rental rules...

IRC 280(A) – Disallowance of certain expenses in connection with business use of home, rental of vacation homes, etc.

- What if the rental is less than 15 days a year?
- What if the owner restricts their usage to under 15 days a year?
- How do you figure rental expenses when the rental is only a portion of the personal residence or vacation home?
- What is personal use v. business use?

IRS advises that you limit your SALT...

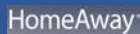
- How do the SALT limitations rules affect the computation of vacation home rental and home office deductions?

- PMTA 2019-01
Interplay between the \$10,000 limitation of §164(b)(6) and §280A(b)



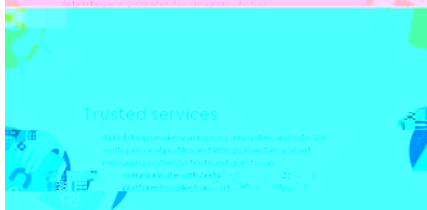
VARIATIONS ON VACATION RENTALS THANKS TO THE SHARING ECONOMY

Rules for Home Rentals



How it works

A community built on sharing



When would a vacation home rental be presented on a Schedule C rather than a Schedule E?

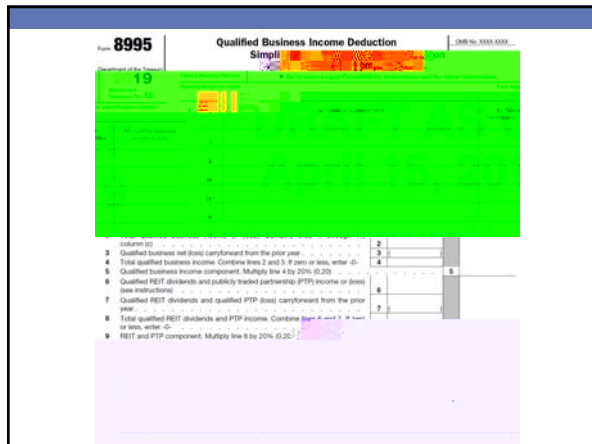
- What constitutes “substantial services?”
- When would a rental property owner be subject to SE tax?

Rental real estate enterprise safe harbor

- Solely for the purposes of 199A, a safe harbor is available to individuals and owners of passthrough entities. Under the safe harbor a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. *For more information on the safe harbor see **Notice 2019-07**.*

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My client owns multiple rentals, but they




TOO MANY RULES SWIRLING INTO A VORTEX OF GO/NO-GO CONFUSION...

What planning can be considered for residential rentals to position them to take advantage of the 199A benefits?

- Using bonus depreciation? Section 179 expensing? De minimis safe harbor elections? Or Not?

Doing the Due Diligence...

- What questions should you be asking clients to know which category of rental activity they are conducting?

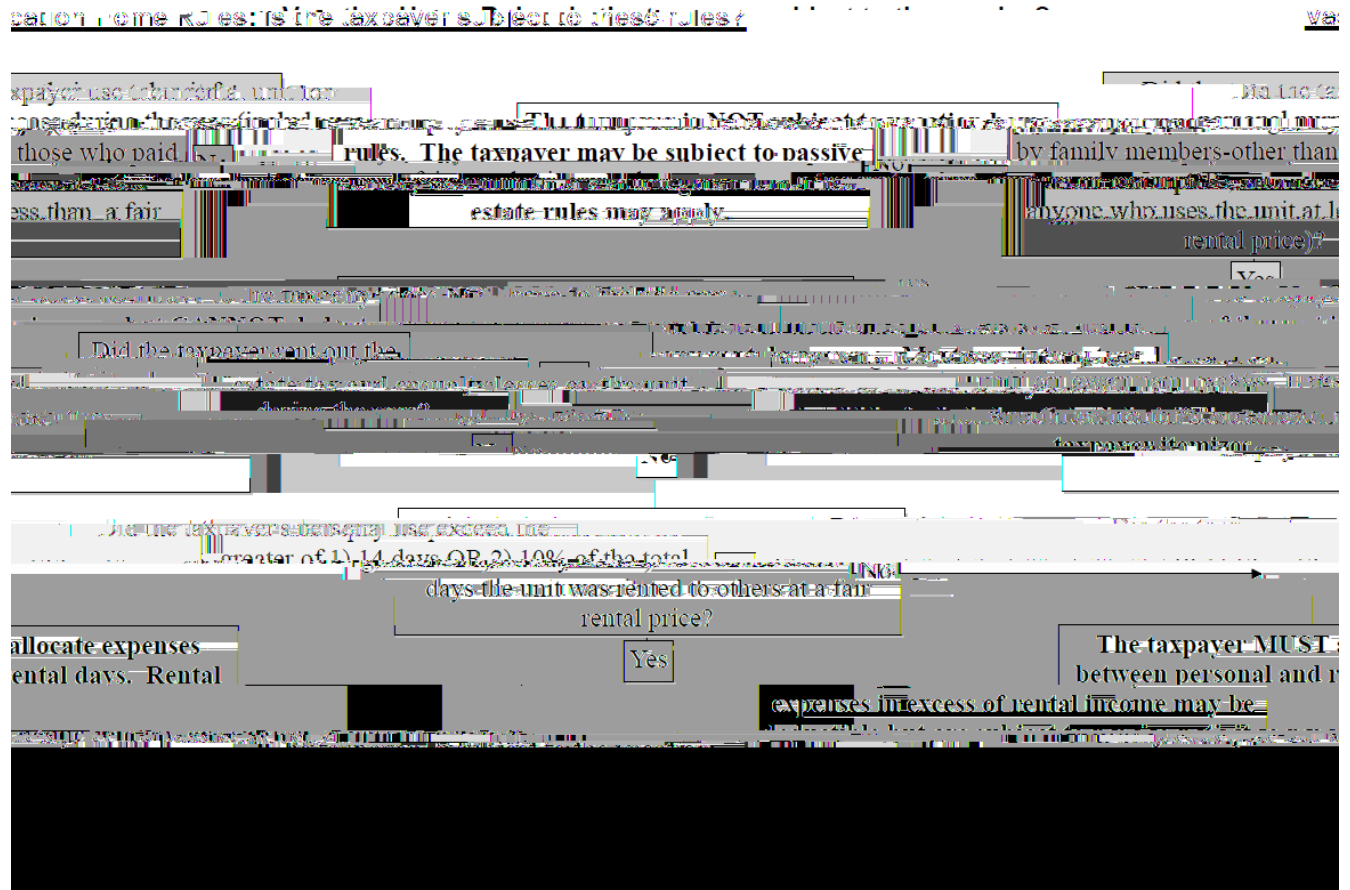


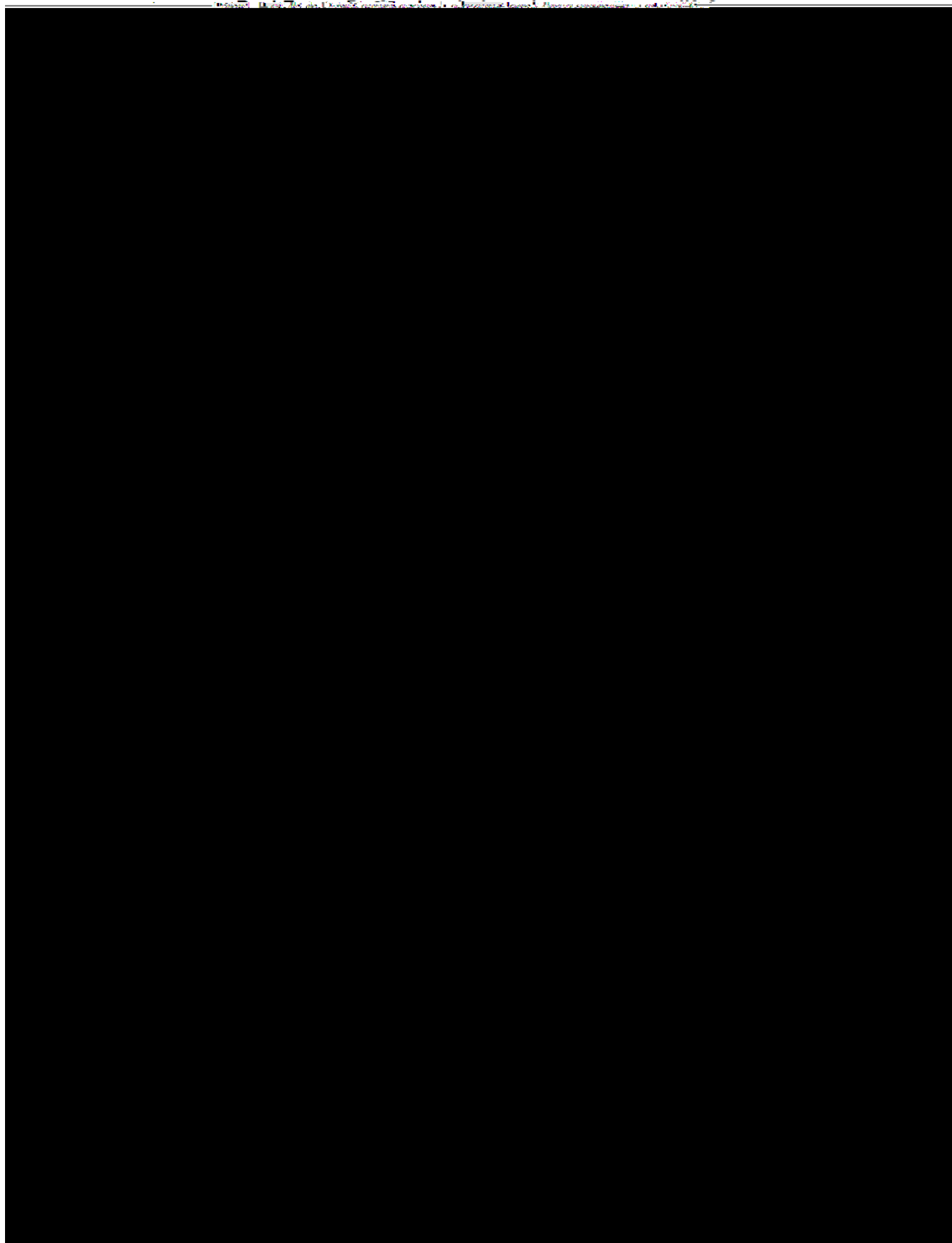
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Worksheet: Home Section 179 Election

Yes No
 Was the dwelling unit used as a home this year?

Allocation Factors for Expenses:
 A) Number of days of rental use
 B) Number of days of personal use
 C) Number of days in tax year

Allocation Factors for Expenses:
 D) IRS Method (line A)/(line A + line B)
 E) Tax Court Method for interest and taxes ONLY (line A)/(line A + line C)

IRS Method

Gross Rents Received	Operating Expenses
Home Mortgage Interest	Excess Mortgage Interest