

## #1 RENTAL INCOME TAX TIPS



The lower your rental income for the year, the less that you will owe in taxes. By minimizing your rental income, you can reduce your taxable liability.

This does not mean you should stop collecting rent, it just means you might not have to include all the rent you've collected in your taxable rental income.

1. You don't have to report your rental income if you rented out your property or vacation home for 14 days or less.

2. Rental income is taxable in the year it is collected. If you did not receive the last month's rent in the current year, do not report the income in the current year.

3. Exclude Security Deposits from your rental income if you plan on returning the deposits at the end of lease.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com

## #2 MINIMIZE TAXABLE GAIN USING SALE EXPENSES

**F. Summary of Seller's Transaction**

400. Gross Amount Due To Seller
401. Contract sales price
402. Personal property

**700. Total Sales/Broker's Commission based on price**

701. Division of Commission (line 700) as follows:	
702. \$	Yes
703. Commission paid at settlement	Yes

**Adjusted Basis =**

- Basis (Contract sales price minus value of land)
- + Purchase costs (title & escrow fees, etc...)
- + Improvements (expenses & repairs, etc...)
- Accumulated depreciation or amortization
- Other decreases to basis

**ADJUSTED BASIS** is the cost of an asset adjusted for improvements or any deductions. It is calculated as the contract sales price minus land value, plus any improvements, minus depreciation claimed in prior years.

When you sell your property, you must add the value of land back to the Adjusted Basis that you retrieved from your depreciation worksheet. This will give you the Adjusted Cost Basis of your property.

Many real estate investors overlook deductions when they sell their property. If you sold your rental property for a gain, make sure to minimize taxes by accounting for sale expenses - like closing costs, which can be found on the property's settlement statement.

You should deduct Commissions Paid, Title Charges, Recording and Transfer Charges, and Additional Settlement Costs from the Contract Sales Price. This will help you minimize gain, and lower the tax liability on your sold property.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #3 LOOK FOR PROPERTIES WHILE ON VACATION



Be sure to deduct the cost of expenses incurred while looking for new property. Travel expenses in connection with the management of your investments are tax deductible if they are ordinary and necessary.

At least half of the time you spent away on travel must have been spent doing business, and the primary cause for travel must be business. Common business expenses that you can deduct while scouting for new investment properties are fees for travel, lodging, and services.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #4 ORDINARY AND NECESSARY ADVERTISING EXPENSES



Be sure to deduct any advertising expenses that are considered “ordinary and necessary” for your rental property.

Common expenses can be advertisements on the radio, in the newspaper, classified lists, and phone books. Other expenses may include the cost of

signs, banners, and postage for mailers. You can even deduct the cost of advertising for vacancies, including the cost of building a web site - just be sure that they are “ordinary and necessary” for your rental activity.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #5 DEDUCTING TENANT UTILITIES THAT THE LANDLORD PAYS

Utilities paid by the landlord for tenant use are fully deductible, provided that this is part of the rental agreement.

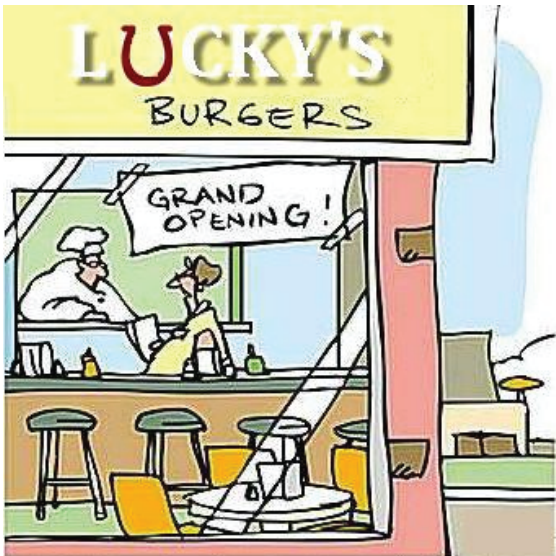


Landlords often incur expenses to light common areas or operate security systems on their properties. Other common expenses include power, water, gas, and cable, and internet.

Any utility costs incurred during a period of vacancy are also fully deductible - but be careful. Deducting large expenses during periods of vacancy can be a reason for the IRS to become suspicious.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #6 DEDUCTIBLE START-UP EXPENSES



“Well Lucky, for starters, I think the horseshoe was a bad idea.”

Business start-up costs are generally capital expenditures, but you can elect to deduct up to \$5,000 of business start-up costs incurred in 2008. The \$5,000 deduction is reduced by the amount your total start-up costs exceed \$50,000, and the remaining cost must be amortized.

Start-up expenses are costs incurred while creating an active trade or for investigating the creation of a business or trade. This includes expenses incurred when acquiring an existing for profit activity, as well as expenses incurred during the anticipated production of income.

**Common start-up expenses may include:**

- Accounting fees
- Analysis, survey, or study of potential markets, products, labor supply, transportation facilities, etc.

- Advertisements for the opening of the business.
- Office equipment and furniture, setup costs
- Salaries and wages for employees who are being trained and their instructors.
- Travel and other necessary costs for securing prospective distributors, suppliers, or customers.
- Salaries and fees for executives and consultants, or for similar professional services

Keep in mind that certain expenses must be amortized over 5 years. Such expenses include legal expenses and expenses for setting up the business structure (as an LLC, etc...)

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #7 SELL PROPERTY TO YOURSELF



"I hear the seller is a philosopher...."

Selling property to your own S-Corporation may be beneficial in some specific situations, like if you are trying to meet requirements for the two year rule (\$250/500k exclusion), or if you are trying to take advantage of depreciation on appreciated property.

For example, say you lived in a property for three years, and rented it out for the next seven years - since you haven't lived there for two out of the last five years, you cannot sell the property as a primary residence to avoid the capital gain. How-

ever, after moving out of the property, you sell it to your own S-Corporation, which allows you to exclude capital gain (up to \$250k, \$500k if married filing jointly) because requirements for the two-year rule have been met. The other advantage is you can have a new basis for depreciation on your appreciated property. Selling to your S-Corp isn't for everyone though. You should avoid using this strategy if you cannot take advantage of the exclusion amount.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #8 PAY YOUR KIDS, OPEN THEIR IRAS



If it looks like you will have a large taxable liability at the end of the year, it's not a bad idea to hire your kids to landscape your rentals.

You can pay your kids to do work on your properties, and put the money in IRA accounts for them. This is especially a good idea if you've already maxed out on your and your spouse's IRA contribution for the year. You're better off avoiding the taxes on your extra income, and the money will be safe in a tax free shelter.

And of course, it's a great way to help your kids prepare for their first property!

To learn more about saving money on taxes, try the property management software and other money saving real estate software from TReXGlobal.com.

## #9 TRAVELING AWAY FROM HOME



You can deduct the expense of traveling away from home if the primary purpose of the trip was to collect rental income or to manage, conserve, or maintain rental property.

You can also deduct expenses incurred while staying overnight when traveling for business.

You cannot deduct the cost of traveling away from home if the primary purpose of the trip was the improvement of your property. You can read Publication 463 to learn the specifics.

## #10 HIRE FAMILY MEMBERS TO MANAGE YOUR PROPERTIES



Property management fees are fully deductible, so consider hiring someone that you don't mind paying, like a family member.

Obviously, the expense of your own labor cannot be written off, but that doesn't mean your spouse or children have to work for free.

By hiring family members, it won't bother you to pay management fees because the expense is fully deductible, and the money stays within your family. Keep in mind you'll have to withhold Social Security and Medicare taxes for the income you pay.

AND of course, hiring a professional is always a good idea. Your teenager might not be the greatest candidate to collect rent :)

Everyone's tax situation is different, and this information should not substitute professional advice. Taxpayers should always consult with their tax advisors to consider specific factors that might affect their situation. You can also refer to IRS Publication 535 to learn more about business expenses.

To learn more about saving money on taxes, try the property management software and other money saving real estate software from [TReXGlobal.com](http://www.trexglobal.com).

---

*T-Rex Global does not provide legal or tax counsel or advice. Everyone's tax situation is different, and this information should not substitute professional advice. Taxpayers should always consult with their tax advisors to consider specific factors that might affect their situation. You agree to indemnify and hold harmless T-Rex Global for any damages or actions arising out of Your use of or reliance on the information provided by T-Rex Global*