



**“Nurture your mind with great thoughts.
To believe in the heroic makes heroes.”**
- Benjamin Disraeli, British Prime Minister

Tax Tip – September 16, 2015

Rental Investments

A rental activity in which the payment is for use of tangible property is “passive.” Losses from this type of activity can offset any gains from such activities, including profits from the sales of properties. Losses unusable this year can be carried forward to years when you have passive-activity income. The only other way to use suspended losses is to dispose of the entire activity. The depreciation period for nonresidential real property is 39 years for most property placed in service after May 12, 1993. That for residential rental property is 27 ½ years. (Note: income from a passive activity may be subject to the 3.8% Medicare surtax if you do not materially participate and you meet the AGI thresholds for the surtax.)

Exception: If you “actively” participate in renting real estate (i.e., you are at least a 10% owner and are deeply involved in its operation), you can deduct up to \$25,000 from your non-passive income in rental real estate losses. The deduction is reduced by \$1 for every \$2 AGI exceeds \$100,000 (MFJ). The landlord must spend over half his or her time materially participating in realty and put in more than 750 hours per year to deduct losses.

Repairs to a rental property can be deducted for the year when made, but improvements must be depreciated over many years. To keep these types of work separate, do them at different times and get them billed separately, if possible by different contractors. If you convert to rental use a house that has lost value since

you bought it, only the drop in value after the conversion will be deductible when you sell.

If you have any questions regarding this information, please feel free to contact our office.

P.S. Please forward this to your friends or colleagues that you'd like to introduce our firm to. Or send us their email address and we'll ask for their permission to forward with your compliments.

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