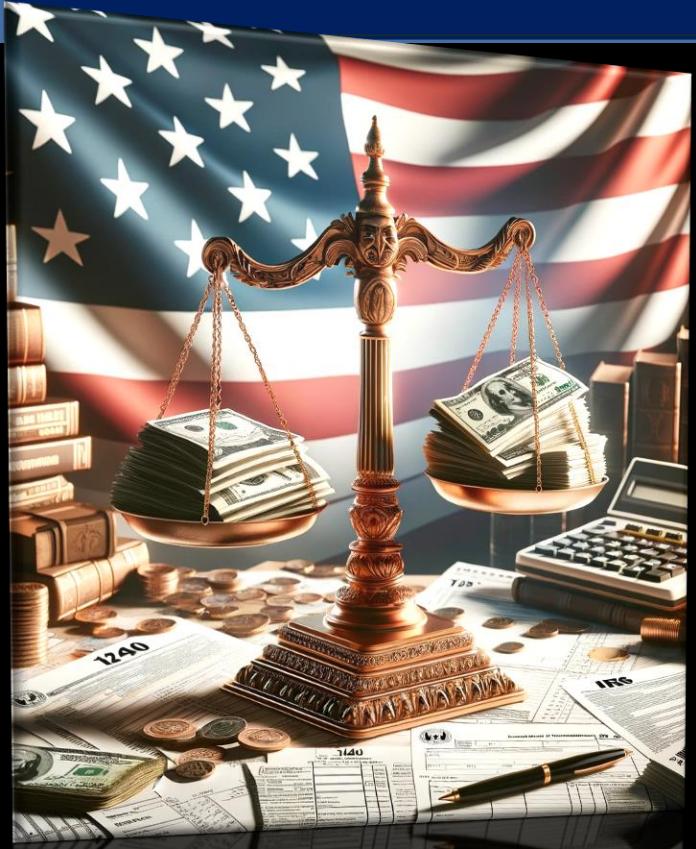
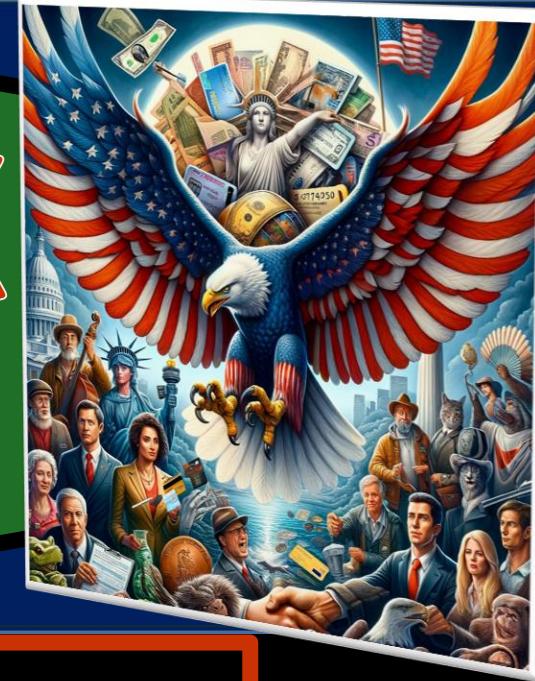


Income Tax

2023-2024



Depreciation of Rental Property Part 1





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= Adjusted Gross Income (AGI)

- Greater of:

Standard Deduction or

Itemized Deduction

= Taxable Income

x Tax Rates (Tax Tables)

= Tax Before Credits & Other Taxes

- + Tax Credits & Other Taxes

= Total Tax

- Tax Payments & Refundable Credits

= Tax Refund or Tax Due

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b	Type of Property (from list below)	2	Fair Rental Days	Personal Use Days	QJV
A					<input type="checkbox"/>
B					<input type="checkbox"/>
C					<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		



Depreciation of Rental Property



You recover the cost of income-producing property through yearly tax deductions. You do this by depreciating the property; that is, by deducting some of the cost each year on your tax return.

Three factors determine how much depreciation you can deduct each year: (1) your basis in the property, (2) the recovery period for the property, and (3) the depreciation method used. You can't simply deduct your mortgage or principal payments, or the cost of furniture, fixtures, and equipment, as an expense.

You can deduct depreciation only on the part of your property used for rental purposes. Depreciation reduces your basis for figuring gain or loss on a later sale or exchange.

You may have to use Form 4562 to figure and report your depreciation. See *Which Forms To Use* in chapter 3. Also, see Pub. 946.

Section 179 deduction.

The section 179 deduction is a means of recovering part or all of the cost of certain qualifying property in the year you place the property in service.

It is separate from your depreciation deduction. See chapter 2 of Pub. 946 for more information about claiming this deduction.





Alternative minimum tax (AMT).

If you use accelerated depreciation, you may be subject to the AMT. Accelerated depreciation allows you to deduct more depreciation earlier in the recovery period than you could deduct using a straight line method (same deduction each year).

The prescribed depreciation methods for rental real estate aren't accelerated, so the depreciation deduction isn't adjusted for the AMT. However, accelerated methods are generally used for other property connected with rental activities (for example, appliances and wall-to-wall carpeting).

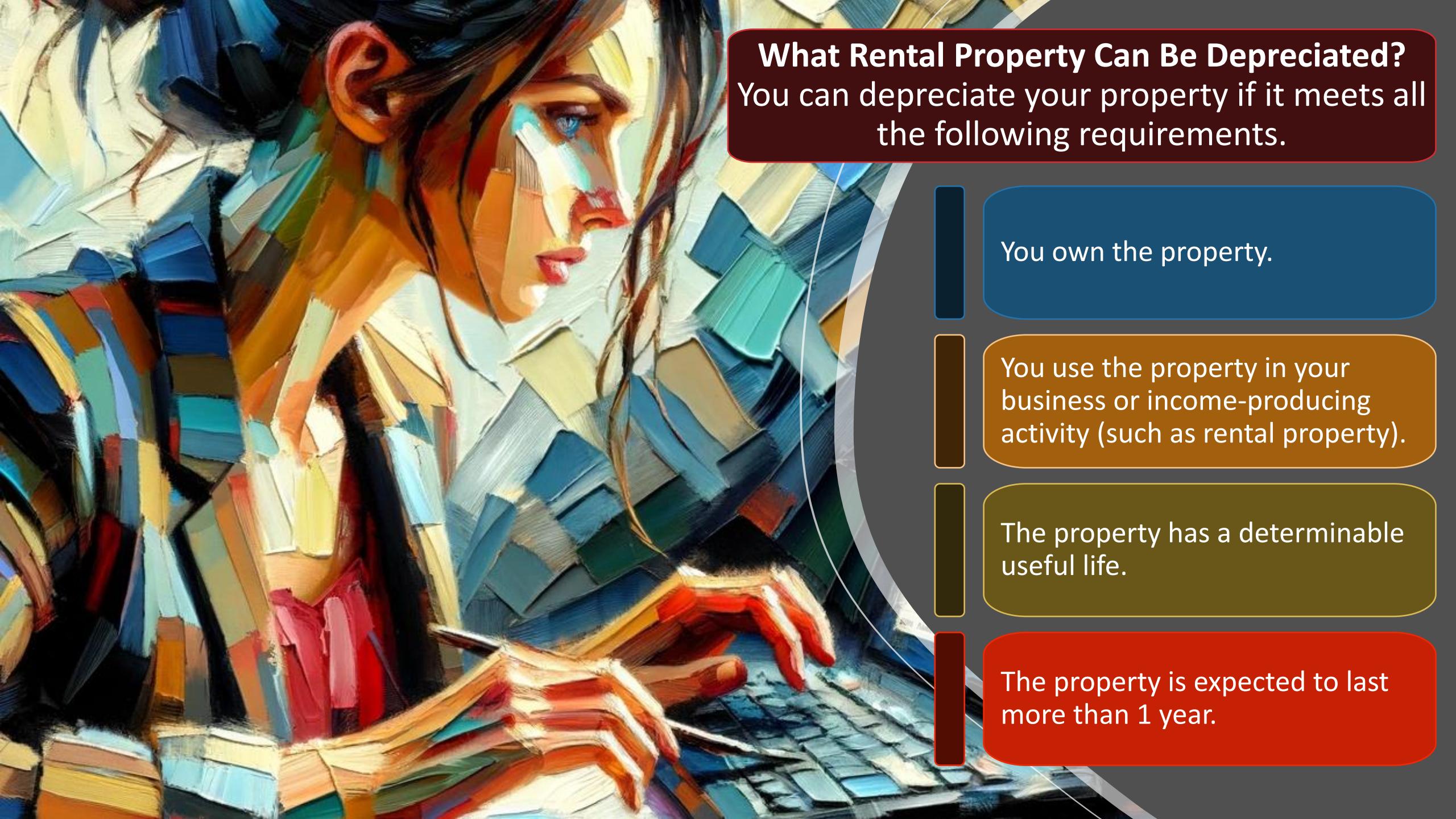
Table 1-1. Examples of Improvements

Additions Bedroom Bathroom Deck Garage Porch Patio	Miscellaneous Storm windows, doors New roof Central vacuum Wiring upgrades Satellite dish Security system	Plumbing Septic system Water heater Soft water system Filtration system
Lawn & Grounds Landscaping Driveway Walkway Fence Retaining wall Sprinkler system Swimming pool	Heating & Air Conditioning Heating system Central air conditioning Furnace Duct work Central humidifier Filtration system	Interior Improvements Built-in appliances Kitchen modernization Flooring Wall-to-wall carpeting

The Basics

The following section discusses the information you will need to have about the rental property and the decisions to be made before figuring your depreciation deduction.





What Rental Property Can Be Depreciated?

You can depreciate your property if it meets all the following requirements.

You own the property.

You use the property in your business or income-producing activity (such as rental property).

The property has a determinable useful life.

The property is expected to last more than 1 year.

Property you own.

- To claim depreciation, you must usually be the owner of the property. You are considered to be the owner of the property even if it's subject to a debt.

Rented property.

- Generally, if you pay rent for property, you can't depreciate that property. Usually, only the owner can depreciate it. However, if you make permanent improvements to leased property, you may be able to depreciate the improvements. See *Additions or improvements to property*, later in this chapter, under *Recovery Periods Under GDS*.

Cooperative apartments.

- If you are a tenant-stockholder in a cooperative housing corporation and rent your cooperative apartment to others, you can depreciate your stock in the corporation. See chapter 4.





- To be depreciable, your property must have a determinable useful life.
- This means that it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

**Property having
a determinable
useful life.**

What Rental Property Can't Be Depreciated?

- Certain property can't be depreciated.
- This includes land and certain excepted property.





Land.

You can't depreciate the cost of land because land generally doesn't wear out, become obsolete, or get used up.

But if it does, the loss is accounted for upon disposition.

The costs of clearing, grading, planting, and landscaping are usually all part of the cost of land and can't be depreciated.

You may, however, be able to depreciate certain land preparation costs if the costs are so closely associated with other depreciable property that you can determine a life for them along with the life of the associated property.

Example.

You built a new house to use as a rental and paid for grading, clearing, seeding, and planting bushes and trees.

Some of the bushes and trees were planted right next to the house, while others were planted around the outer border of the lot.

If you replace the house, you would have to destroy the bushes and trees right next to it.

These bushes and trees are closely associated with the house, so they have a determinable useful life. Therefore, you can depreciate them.

Add your other land preparation costs to the basis of your land because they have no determinable life and you can't depreciate them.





Excepted property.

Even if the property meets all the requirements listed earlier under *What Rental Property Can Be Depreciated*, you can't depreciate the following property.

Property placed in service and disposed of (or taken out of business use) in the same year.

Equipment used to build capital improvements. You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements.

When Does Depreciation Begin and End?

- You begin to depreciate your rental property when you place it in service for the production of income.
- You stop depreciating it either when you have fully recovered your cost or other basis, or when you retire it from service, whichever happens first.



A man in a suit and sunglasses is dancing in an office. He is sitting on a desk, leaning back, with one leg bent and his foot resting on the floor. He is wearing a blue suit, a white shirt, and a red tie. The office has a mural of workers on the wall behind him. A computer monitor on the desk shows a software interface with the word "QUICKBOOKS" on it. There are papers and a pen on the desk. A filing cabinet is visible in the background.

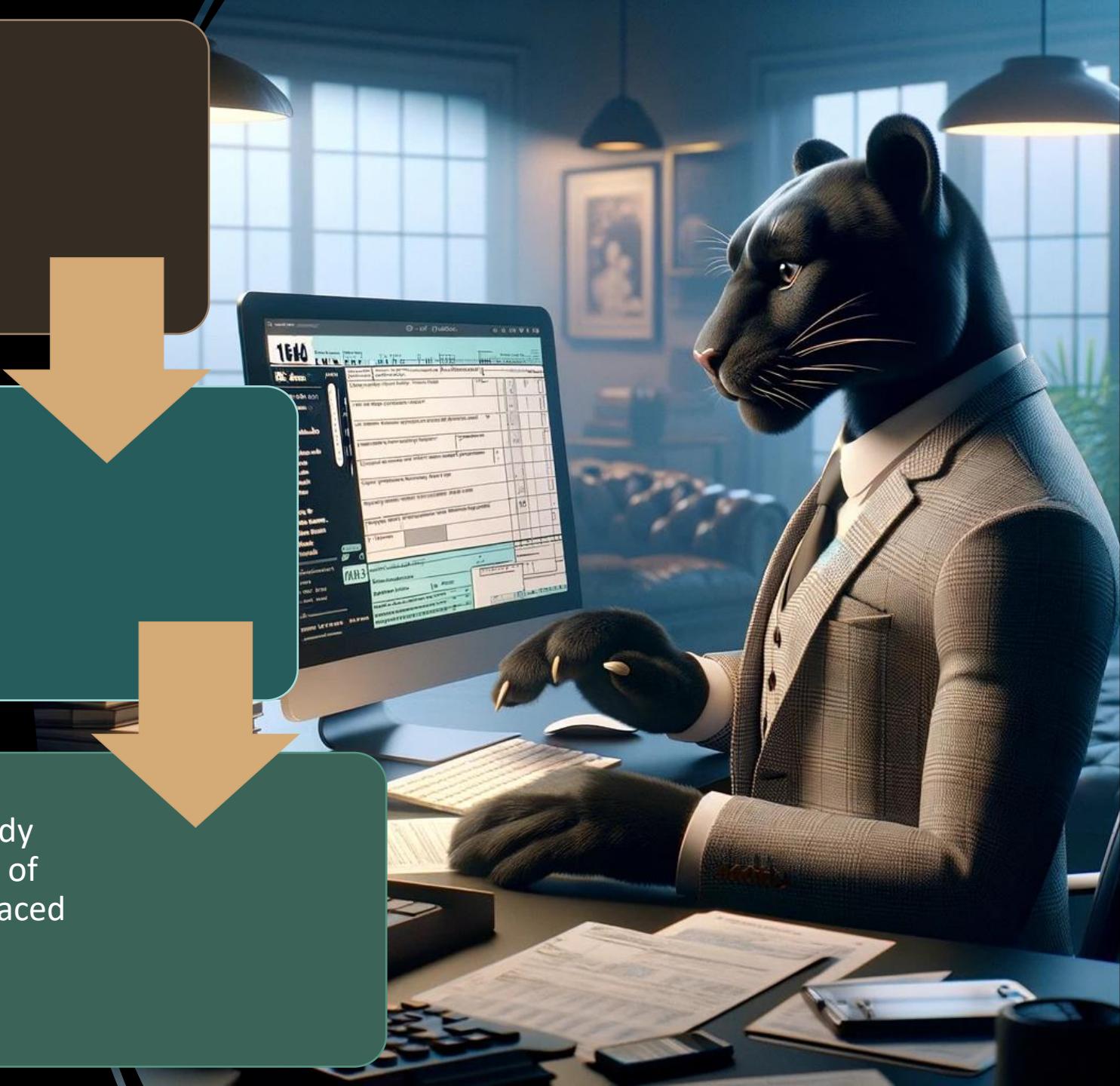
Placed in Service

You place property in service in a rental activity when it is ready and available for a specific use in that activity. Even if you aren't using the property, it is in service when it is ready and available for its specific use.

Example 1.

On November 22 of last year, you purchased a dishwasher for your rental property. The appliance was delivered on December 7, but wasn't installed and ready for use until January 3 of this year. Because the dishwasher wasn't ready for use last year, it isn't considered placed in service until this year.

If the appliance had been installed and ready for use when it was delivered in December of last year, it would have been considered placed in service in December, even if it wasn't actually used until this year.





Example 2.

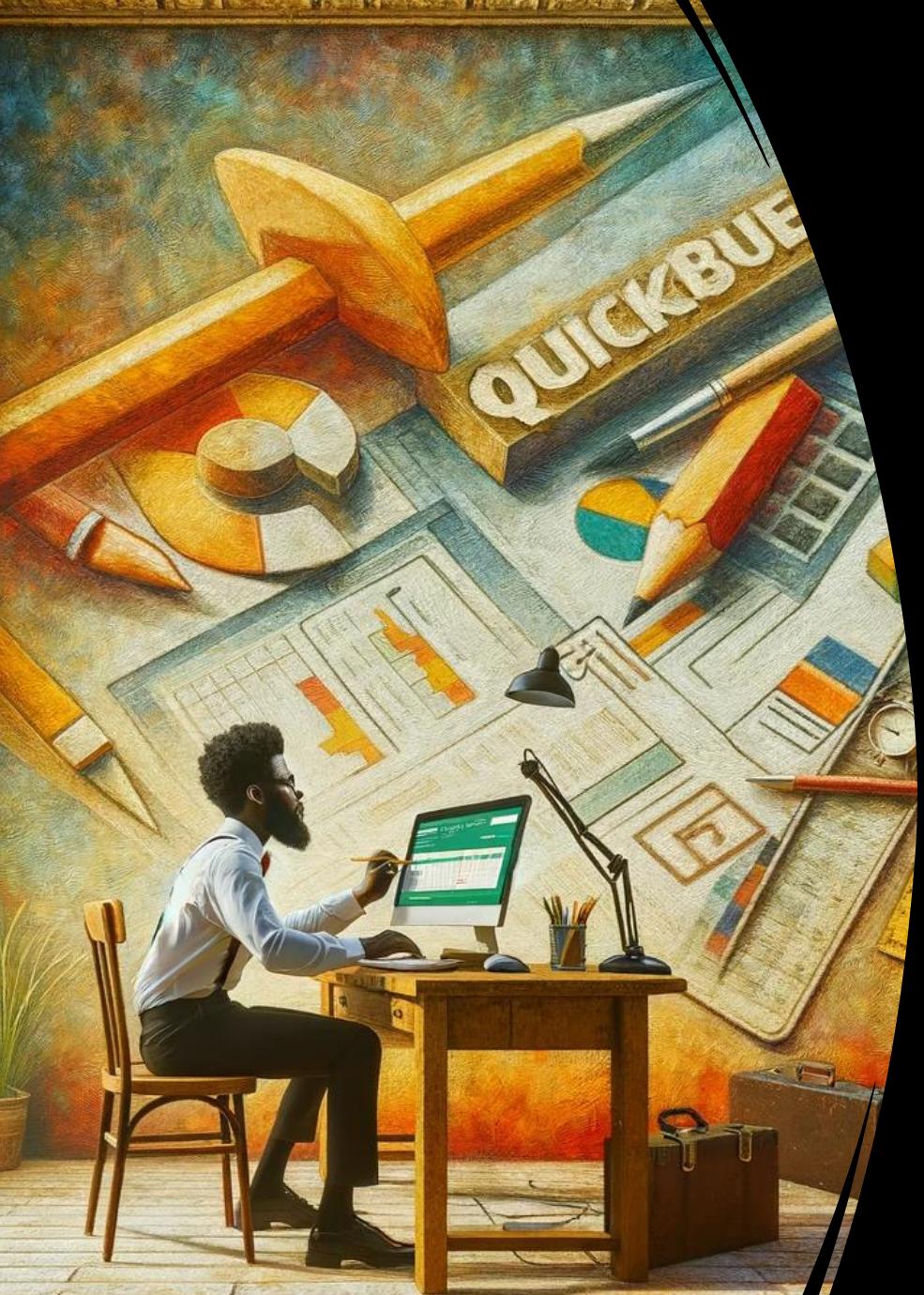
On April 6, you purchased a house to use as residential rental property. You made extensive repairs to the house and had it ready for rent on July 5. You began to advertise the house for rent in July and actually rented it beginning September 1.

The house is considered placed in service in July when it was ready and available for rent. You can begin to depreciate the house in July.

Example 3.

- You moved from your home in July. During August and September, you made several repairs to the house.
- On October 1, you listed the property for rent with a real estate company, which rented it on December 1.
- The property is considered placed in service on October 1, the date when it was available for rent.





Conversion to business use.

- If you place property in service in a personal activity, you can't claim depreciation.
- However, if you change the property's use to business or the production of income, you can begin to depreciate it at the time of the change.
- You place the property in service for business or income-producing use on the date of the change.

- You bought a house and used it as your personal home several years before you converted it to rental property.
- Although its specific use was personal and no depreciation was allowable, you placed the home in service when you began using it as your home.
- You can begin to claim depreciation in the year you converted it to rental property because at that time its use changed to the production of income.

Example.





Idle Property

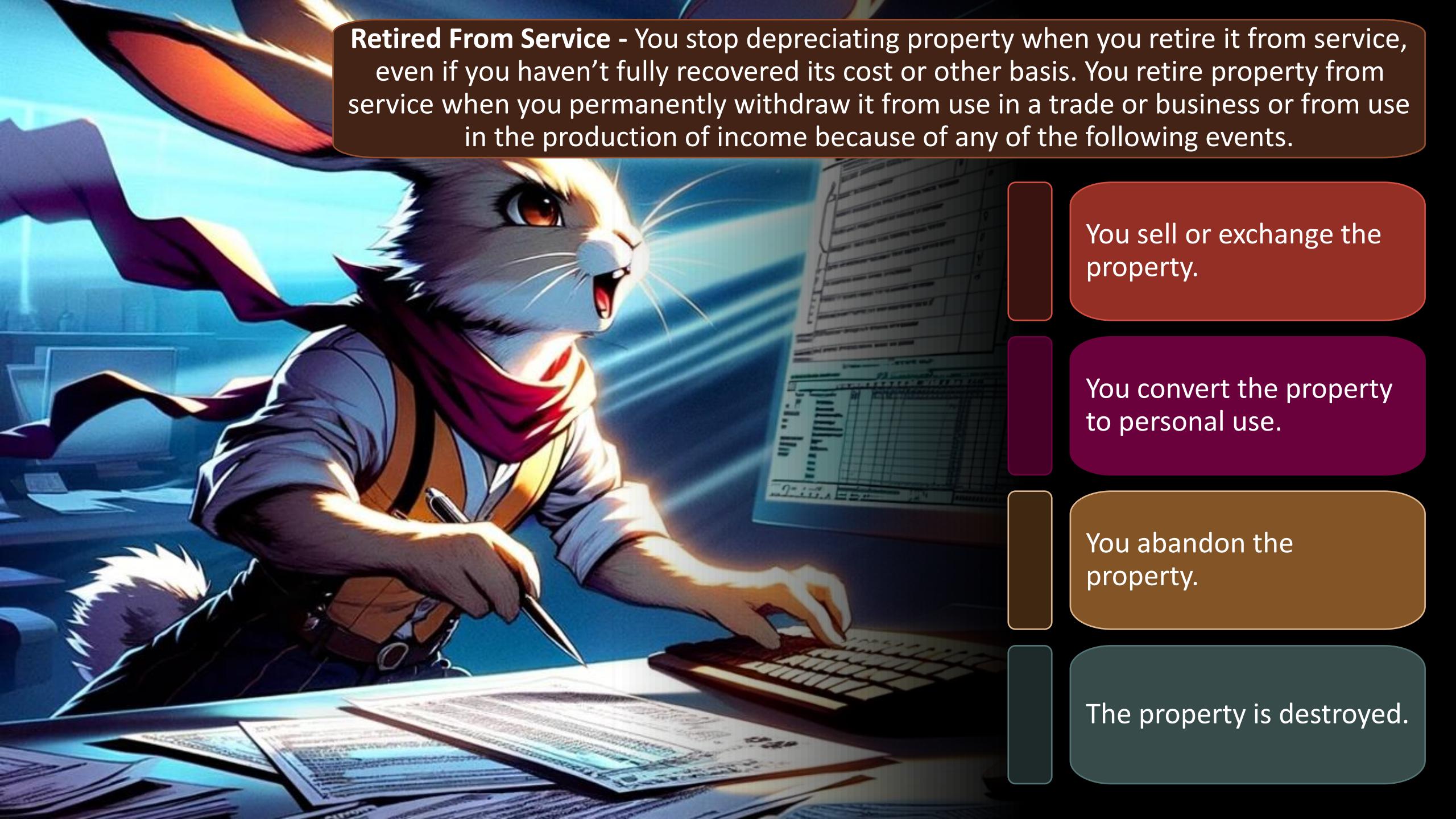
Continue to claim a deduction for depreciation on property used in your rental activity even if it is temporarily idle (not in use).

For example, if you must make repairs after a tenant moves out, you still depreciate the rental property during the time it isn't available for rent.

Cost or Other Basis Fully Recovered

- You must stop depreciating property when the total of your yearly depreciation deductions equals your cost or other basis of your property.
- For this purpose, your yearly depreciation deductions include any depreciation that you were allowed to claim, even if you didn't claim it. See *Basis of Depreciable Property*, later.





Retired From Service - You stop depreciating property when you retire it from service, even if you haven't fully recovered its cost or other basis. You retire property from service when you permanently withdraw it from use in a trade or business or from use in the production of income because of any of the following events.

You sell or exchange the property.

You convert the property to personal use.

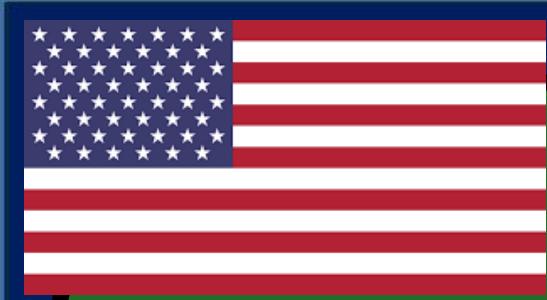
You abandon the property.

The property is destroyed.



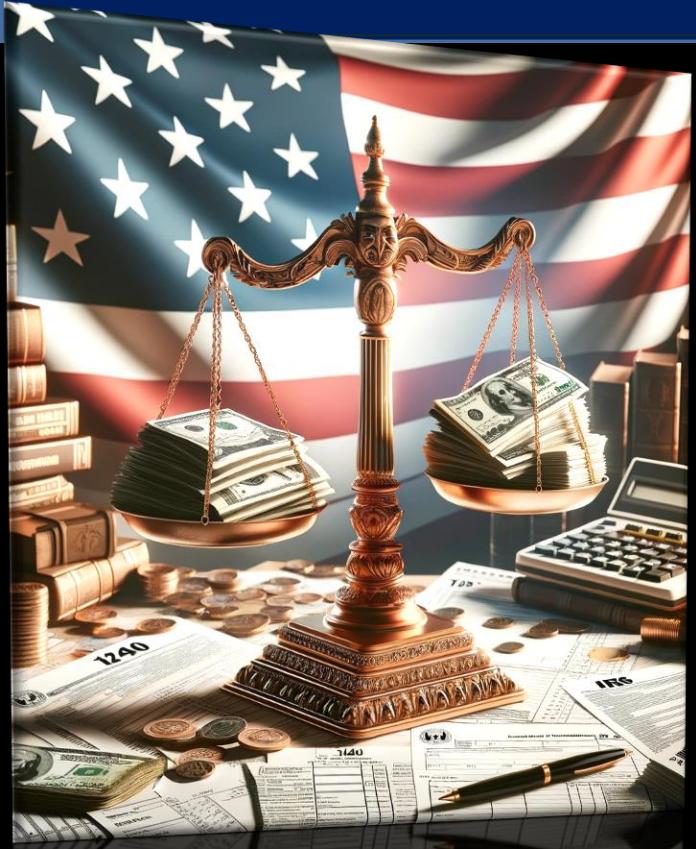
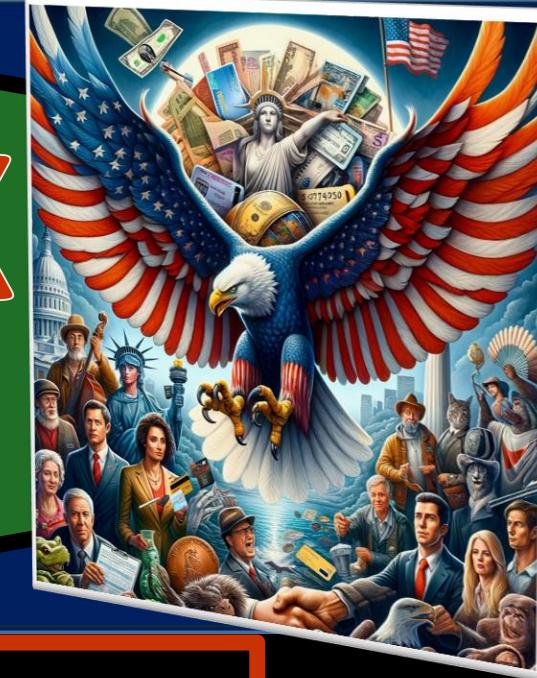
Depreciation Methods

Generally, you must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate residential rental property placed in service after 1986.



Income Tax

2023-2024



Depreciation of
Rental Property
Part 2





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= Adjusted Gross Income (AGI)

- Greater of:

Standard Deduction or

Itemized Deduction

= Taxable Income

x Tax Rates (Tax Tables)

= Tax Before Credits & Other Taxes

- + Tax Credits & Other Taxes

= Total Tax

- Tax Payments & Refundable Credits

= Tax Refund or Tax Due

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		



Depreciation Methods

Generally, you must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate residential rental property placed in service after 1986.

If you placed rental property in service before 1987, you are using one of the following methods.

Accelerated Cost Recovery System (ACRS) for property placed in service after 1980 but before 1987.

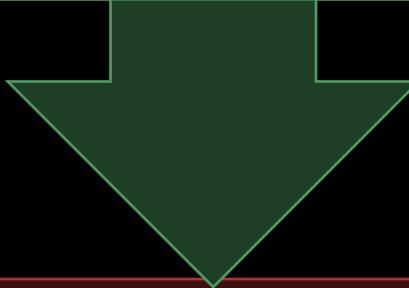
Straight line or declining balance method over the useful life of property placed in service before 1981.





Rental property placed in service before 2023.

Continue to use the same method of figuring depreciation that you used in the past.



Use of real property changed.

Generally, you must use MACRS to depreciate real property that you acquired for personal use before 1987 and changed to business or in-come-producing use after 1986. This includes your residence that you changed to rental use. See *Property Owned or Used in 1986* in chapter 1 of Pub. 946 for those situations in which MACRS isn't allowed.

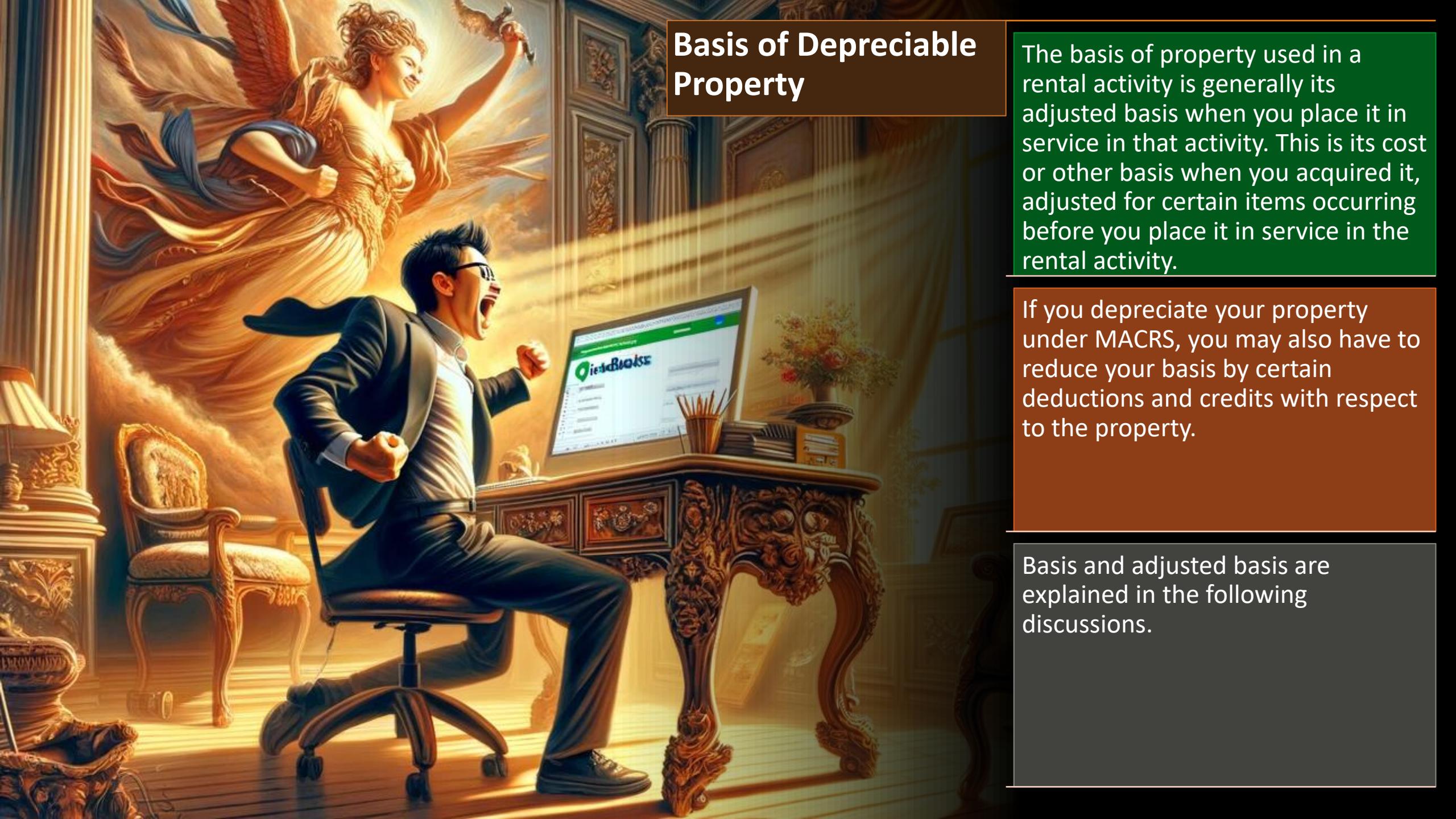
Improvements made after 1986.

Treat an improvement made after 1986 to property you placed in service before 1987 as separate depreciable property.

As a result, you can depreciate that improvement as separate property under MACRS if it is the type of property that otherwise qualifies for MACRS depreciation.

For more information about improvements, see *Additions or improvements to property*, later in this chapter, under *Recovery Periods Under GDS*.





Basis of Depreciable Property

The basis of property used in a rental activity is generally its adjusted basis when you place it in service in that activity. This is its cost or other basis when you acquired it, adjusted for certain items occurring before you place it in service in the rental activity.

If you depreciate your property under MACRS, you may also have to reduce your basis by certain deductions and credits with respect to the property.

Basis and adjusted basis are explained in the following discussions.

Caution

- *If you used the property for personal purposes before changing it to rental use, its basis for depreciation is the lesser of its adjusted basis or its FMV when you change it to rental use. See Basis of Property Changed to Rental Use in chapter 4.*





Cost Basis

The basis of property you buy is usually its cost. The cost is the amount you pay for it in cash, in debt obligation, in other property, or in services. Your cost also includes amounts you pay for:

Sales tax charged on the purchase (but see Exception next),

Freight charges to obtain the property, and

Installation and testing charges.

Exception.

If you deducted state and local general sales taxes as an itemized deduction on Schedule A (Form 1040), don't include as part of your cost basis the sales taxes you deducted. Such taxes were deductible before 1987 and after 2003.





- If you buy property on any payment plan that charges little or no interest, the basis of your property is your stated purchase price, less the amount considered to be unstated interest. See *Unstated Interest and Original Issue Discount (OID)* in Pub. 537, Installment Sales.

**Loans with low
or no interest.**

Real property.

- If you buy real property, such as a building and land, certain fees and other expenses you pay are part of your cost basis in the property.

Real estate taxes.

- If you buy real property and agree to pay real estate taxes on it that were owed by the seller and the seller doesn't reimburse you, the taxes you pay are treated as part of your basis in the property. You can't deduct them as taxes paid.
- If you reimburse the seller for real estate taxes the seller paid for you, you can usually deduct that amount. Don't include that amount in your basis in the property.





Settlement fees and other costs. The following settlement fees and closing costs for buying the property are part of your basis in the property.

Abstract fees.

Charges for installing utility services.

Legal fees.

Recording fees.

Surveys.

Transfer taxes.

Title insurance.

Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

The following are settlement fees and closing costs you can't include in your basis in the property.

Fire insurance premiums.

Rent or other charges relating to occupancy of the property before closing.

Charges connected with getting or refinancing a loan, such as:

Points (discount points, loan origination fees),

Loan assumption fees,

Cost of a credit report, and

Fees for an appraisal required by a lender.

Also, don't include amounts placed in escrow for the future payment of items such as taxes and insurance.





Assumption of a mortgage.

If you buy property and become liable for an existing mortgage on the property, your basis is the amount you pay for the property plus the amount remaining to be paid on the mortgage.

Example.

You buy a building for \$60,000 cash and assume a mortgage of \$240,000 on it. Your basis is \$300,000.

Separating cost of land and buildings.

If you buy buildings and your cost includes the cost of the land on which they stand, you must divide the cost between the land and the buildings to figure the basis for depreciation of the buildings.

The part of the cost that you allocate to each asset is the ratio of the FMV of that asset to the FMV of the whole property at the time you buy it.

If you aren't certain of the FMVs of the land and the buildings, you can divide the cost between them based on their assessed values for real estate tax purposes.





Example.

You buy a house and land for \$200,000. The purchase contract doesn't specify how much of the purchase price is for the house and how much is for the land.

The latest real estate tax assessment on the property was based on an assessed value of \$160,000, of which \$136,000 was for the house and \$24,000 was for the land.

You can allocate 85% ($\$136,000 \div \$160,000$) of the purchase price to the house and 15% ($\$24,000 \div \$160,000$) of the purchase price to the land.

Your basis in the house is \$170,000 (85% of \$200,000) and your basis in the land is \$30,000 (15% of \$200,000).

Basis Other Than Cost

You can't use cost as a basis for property that you received:

In return for services you performed;

In an exchange for other property;

As a gift;

From your spouse, or from your former spouse as the result of a divorce; or

As an inheritance.





Adjusted Basis

- To figure your property's basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the property for events occurring between the time you acquired the property and the time you placed it in service for business or the production of income. The result of these adjustments to the basis is the adjusted basis.

Increases to basis. You must increase the basis of any property by the cost of all items properly added to a capital account. These include the following.

The cost of any additions or improvements made before placing your property into service as a rental that have a useful life of more than 1 year.

Amounts spent after a casualty to restore the damaged property.

The cost of extending utility service lines to the property.

Legal fees, such as the cost of defending and perfecting title, or settling zoning issues.





Additions or improvements.

Add to the basis of your property the amount an addition or improvement actually costs you, including any amount you borrowed to make the addition or improvement. This includes all direct costs, such as material and labor, but doesn't include your own labor. It also includes all expenses related to the addition or improvement.

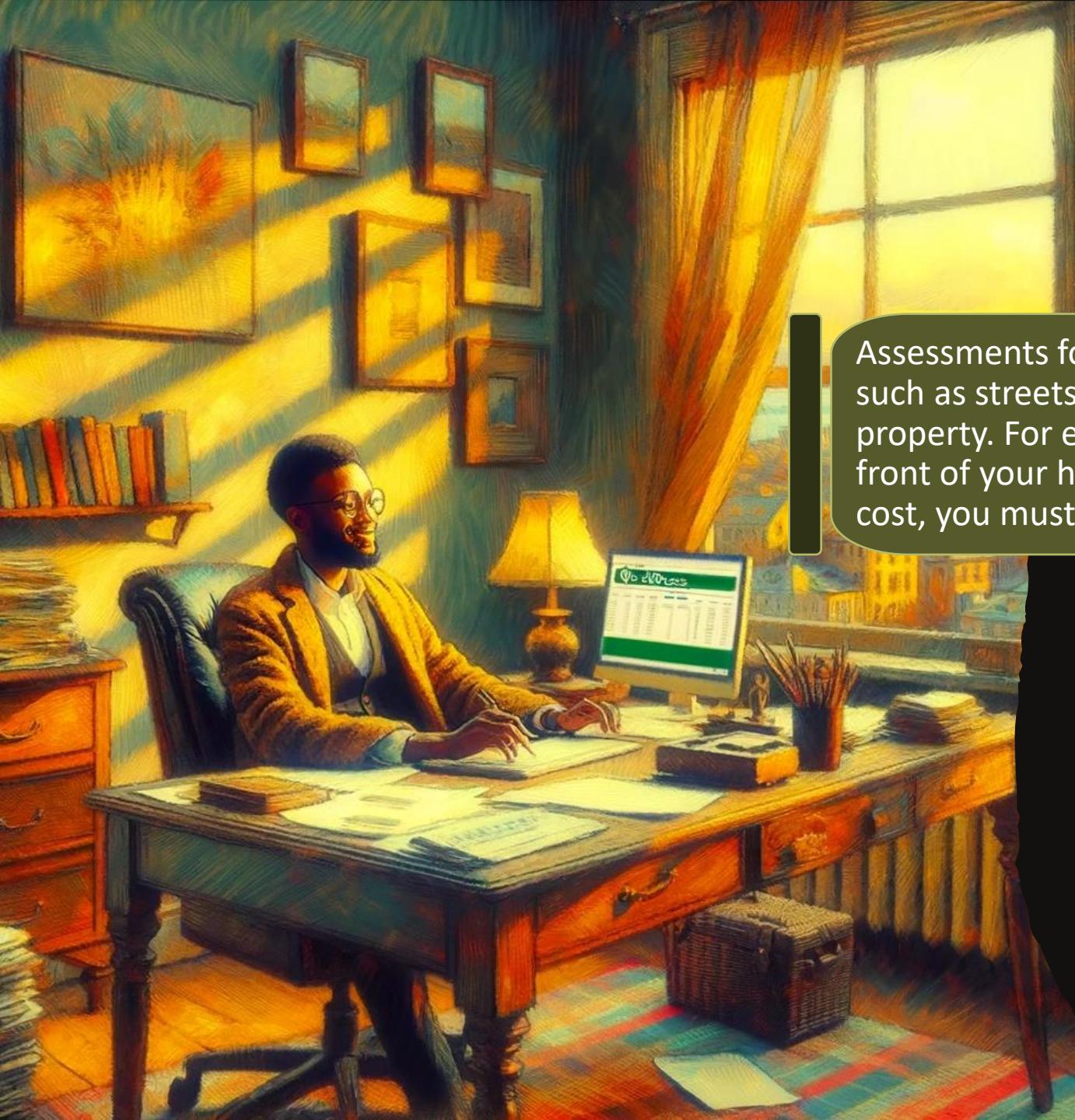
For example, if you had an architect draw up plans for remodeling your property, the architect's fee is a part of the cost of the remodeling. Or, if you had your lot surveyed to put up a fence, the cost of the survey is a part of the cost of the fence.

Keep separate accounts for depreciable additions or improvements made after you place the property in service in your rental activity. For information on depreciating additions or improvements, see *Additions or improvements to property*, later in this chapter, under *Recovery Periods Under GDS*.



Caution

The cost of landscaping improvements is usually treated as an addition to the basis of the land, which isn't depreciable. However, see What Rental Property Can't Be Depreciated, earlier.



Assessments for local improvements.

Assessments for items which tend to increase the value of property, such as streets and sidewalks, must be added to the basis of the property. For example, if your city installs curbing on the street in front of your house, and assesses you and your neighbors for its cost, you must add the assessment to the basis of your property.

Also, add the cost of legal fees paid to obtain a decrease in an assessment levied against property to pay for local improvements. You can't deduct these items as taxes or depreciate them.

However, you can deduct assessments for the purpose of maintenance or repairs or for the purpose of meeting interest charges related to the improvements. Don't add them to your basis in the property.

Deducting vs. capitalizing costs.

Don't add to your basis costs you can deduct as current expenses. However, there are certain costs you can choose either to deduct or to capitalize. If you capitalize these costs, include them in your basis. If you deduct them, don't include them in your basis.

The costs you may choose to deduct or capitalize include carrying charges, such as interest and taxes, that you must pay to own property.

For more information about deducting or capitalizing costs and how to make the election, see *Carrying Charges* in sections 263(A) and 266.





Decreases to basis.

You must decrease the basis of your property by any items that represent a return of your cost. These include the following.

Insurance or other payment you receive as the result of a casualty or theft loss.

Casualty loss not covered by insurance for which you took a deduction.

Amount(s) you receive for granting an easement.

Residential energy credits you were allowed before 1986 or after 2005 if you added the cost of the energy items to the basis of your home.

Exclusion from income of subsidies for energy conservation measures.

Special depreciation allowance or a section 179 deduction claimed on qualified property.

Depreciation you deducted or could have deducted on your tax returns under the method of depreciation you chose. If you didn't deduct enough or deducted too much in any year, see *Depreciation* under *Decreases to Basis* in Pub. 551.

If your rental property was previously used as your main home, you must also decrease the basis by the following.

Gain you postponed from the sale of your main home before May 7, 1997, if the replacement home was converted to your rental property.

District of Columbia first-time homebuyer credit allowed on the purchase of your main home after August 4, 1997, and before January 1, 2012.

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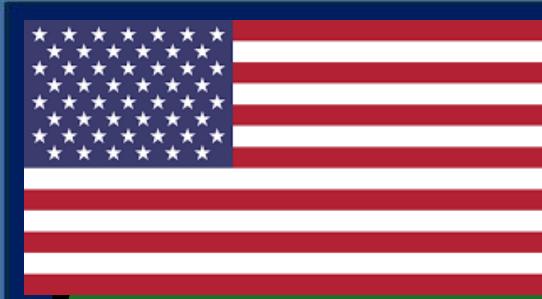
Special Depreciation Allowance

For 2023, some properties used in connection with residential real property activities may qualify for a special depreciation allowance.

This allowance is figured before you figure your regular depreciation deduction.

See chapter 3 of Pub. 946 for details. Also, see the instructions for Form 4562, line 14.

If you qualify for, but choose not to take, a special depreciation allowance, you must attach a statement to your return. The details of this election are in chapter 3 of Pub. 946 and the instructions for Form 4562, line 14.



Income Tax

2023-2024



Depreciation of
Rental Property
Example





Depreciation of Rental Property

You recover the cost of income-producing property through yearly tax deductions. You do this by depreciating the property; that is, by deducting some of the cost each year on your tax return.

Three factors determine how much depreciation you can deduct each year: (1) your basis in the property, (2) the recovery period for the property, and (3) the depreciation method used. You can't simply deduct your mortgage or principal payments, or the cost of furniture, fixtures, and equipment, as an expense.

You can deduct depreciation only on the part of your property used for rental purposes. Depreciation reduces your basis for figuring gain or loss on a later sale or exchange.

You may have to use Form 4562 to figure and report your depreciation. See *Which Forms To Use* in chapter 3. Also, see Pub. 946.

Section 179 deduction.

The section 179 deduction is a means of recovering part or all of the cost of certain qualifying property in the year you place the property in service.

It is separate from your depreciation deduction. See chapter 2 of Pub. 946 for more information about claiming this deduction.





Alternative minimum tax (AMT).

If you use accelerated depreciation, you may be subject to the AMT. Accelerated depreciation allows you to deduct more depreciation earlier in the recovery period than you could deduct using a straight line method (same deduction each year).

The prescribed depreciation methods for rental real estate aren't accelerated, so the depreciation deduction isn't adjusted for the AMT. However, accelerated methods are generally used for other property connected with rental activities (for example, appliances and wall-to-wall carpeting).

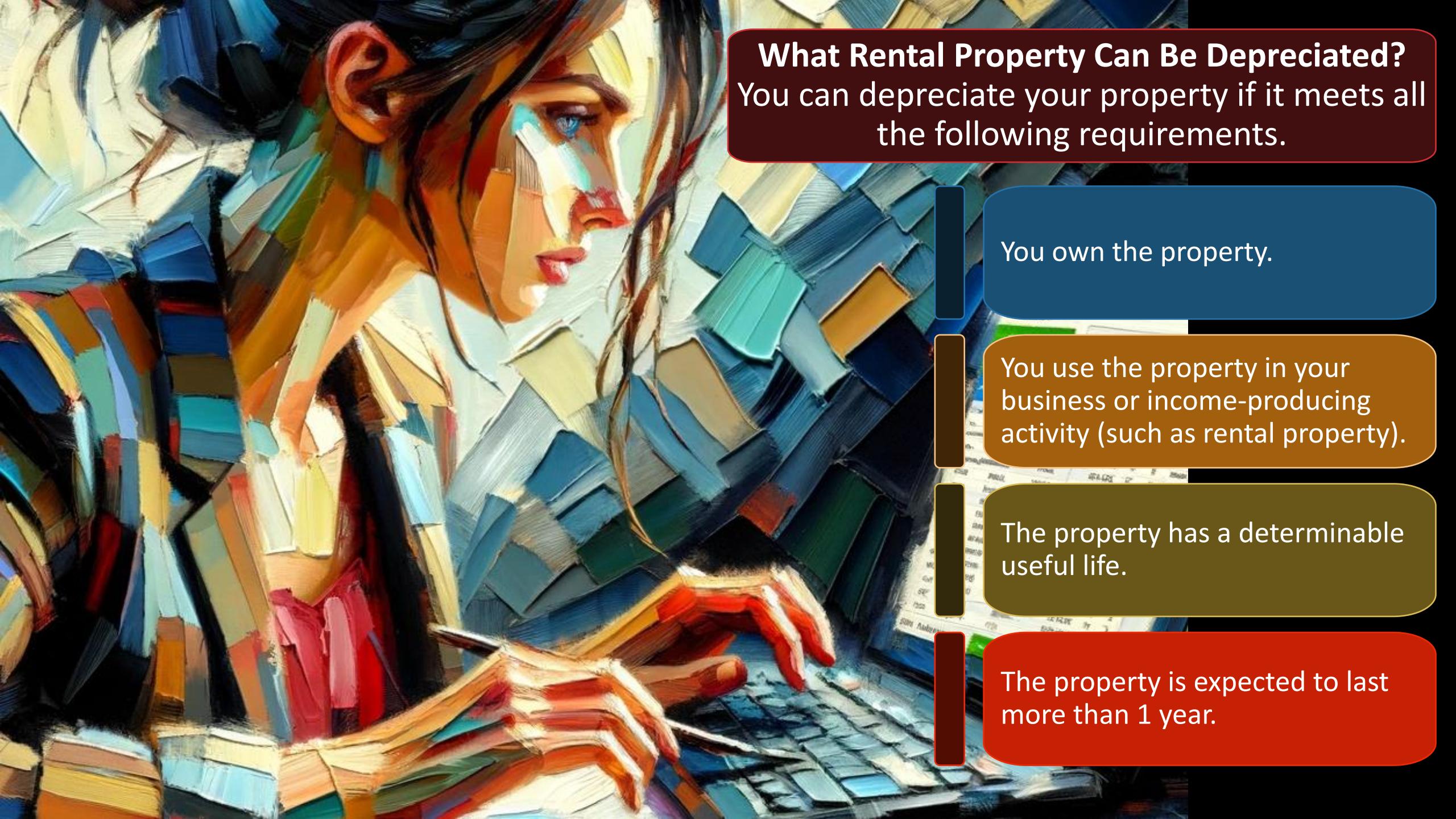
Table 1-1. Examples of Improvements

Additions	Miscellaneous	Plumbing
Bedroom	Storm windows, doors	Septic system
Bathroom	New roof	Water heater
Deck	Central vacuum	Soft water system
Garage	Wiring upgrades	Filtration system
Porch	Satellite dish	
Patio	Security system	
Lawn & Grounds	Heating & Air Conditioning	Interior Improvements
Landscaping	Heating system	Built-in appliances
Driveway	Central air conditioning	Kitchen modernization
Walkway	Furnace	Flooring
Fence	Duct work	Wall-to-wall carpeting
Retaining wall	Central humidifier	
Sprinkler system	Filtration system	
Swimming pool		
		Insulation
		Attic
		Walls, floor
		Pipes, duct work

The Basics

The following section discusses the information you will need to have about the rental property and the decisions to be made before figuring your depreciation deduction.





What Rental Property Can Be Depreciated?

You can depreciate your property if it meets all the following requirements.

You own the property.

You use the property in your business or income-producing activity (such as rental property).

The property has a determinable useful life.

The property is expected to last more than 1 year.

Property you own.

- To claim depreciation, you must usually be the owner of the property. You are considered to be the owner of the property even if it's subject to a debt.

Rented property.

- Generally, if you pay rent for property, you can't depreciate that property. Usually, only the owner can depreciate it. However, if you make permanent improvements to leased property, you may be able to depreciate the improvements. See *Additions or improvements to property*, later in this chapter, under *Recovery Periods Under GDS*.

Cooperative apartments.

- If you are a tenant-stockholder in a cooperative housing corporation and rent your cooperative apartment to others, you can depreciate your stock in the corporation. See chapter 4.





- To be depreciable, your property must have a determinable useful life.
- This means that it must be something that wears out, decays, gets used up, becomes obsolete, or loses its value from natural causes.

**Property having
a determinable
useful life.**

What Rental Property Can't Be Depreciated?

- Certain property can't be depreciated.
- This includes land and certain excepted property.





Land.

You can't depreciate the cost of land because land generally doesn't wear out, become obsolete, or get used up.

But if it does, the loss is accounted for upon disposition.

The costs of clearing, grading, planting, and landscaping are usually all part of the cost of land and can't be depreciated.

You may, however, be able to depreciate certain land preparation costs if the costs are so closely associated with other depreciable property that you can determine a life for them along with the life of the associated property.

Example.

You built a new house to use as a rental and paid for grading, clearing, seeding, and planting bushes and trees.

Some of the bushes and trees were planted right next to the house, while others were planted around the outer border of the lot.

If you replace the house, you would have to destroy the bushes and trees right next to it.

These bushes and trees are closely associated with the house, so they have a determinable useful life. Therefore, you can depreciate them.

Add your other land preparation costs to the basis of your land because they have no determinable life and you can't depreciate them.





Excepted property.

Even if the property meets all the requirements listed earlier under *What Rental Property Can Be Depreciated*, you can't depreciate the following property.

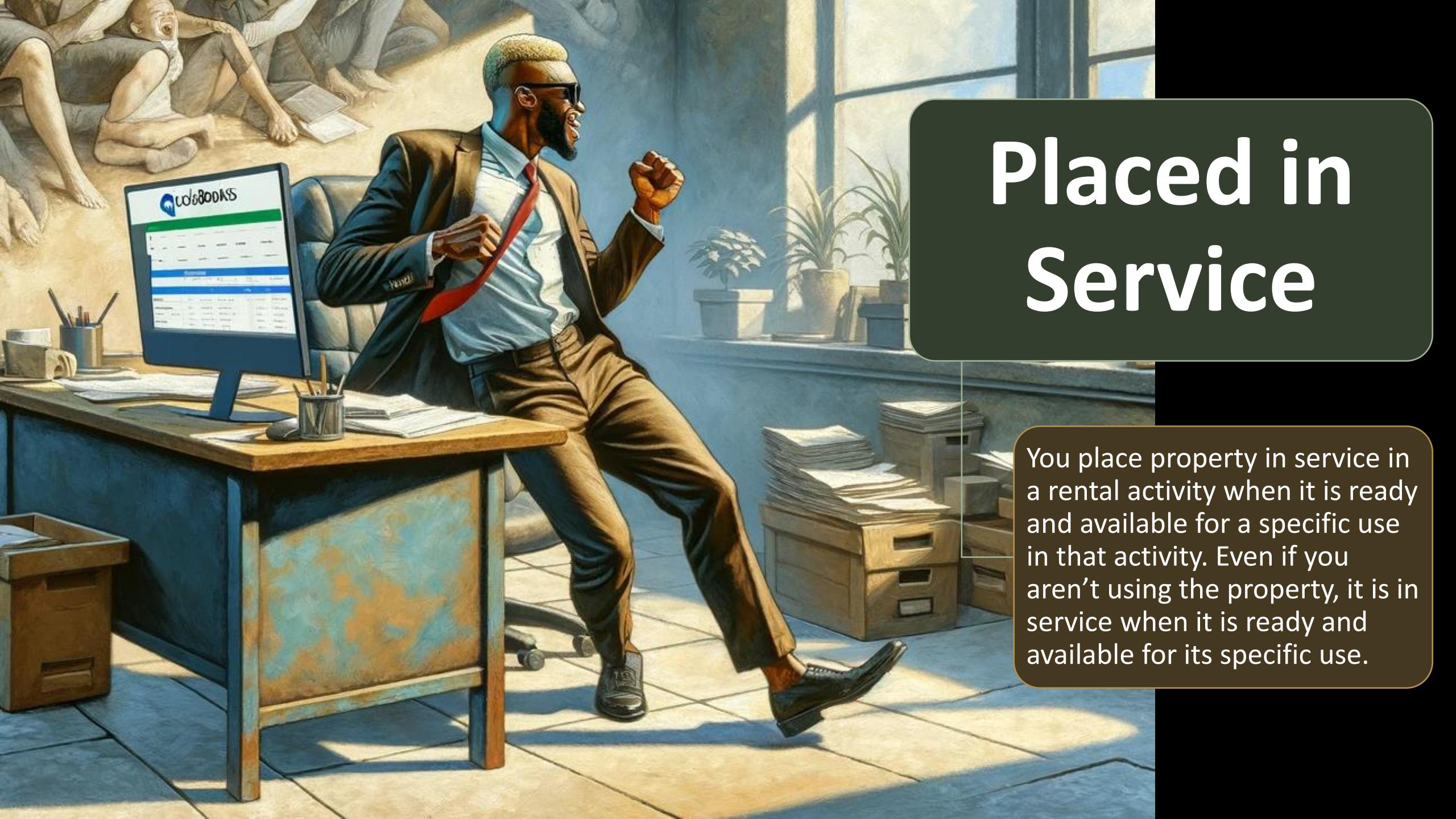
Property placed in service and disposed of (or taken out of business use) in the same year.

Equipment used to build capital improvements. You must add otherwise allowable depreciation on the equipment during the period of construction to the basis of your improvements.

When Does Depreciation Begin and End?

- You begin to depreciate your rental property when you place it in service for the production of income.
- You stop depreciating it either when you have fully recovered your cost or other basis, or when you retire it from service, whichever happens first.



A painting of a man in a suit dancing in an office. He is wearing a blue suit, a red tie, and sunglasses. He is sitting on a desk, with one leg on the floor and one foot on the desk. He is holding a red tie in his right hand and has his left fist raised. Behind him is a computer monitor displaying the QuickBooks software interface. The office has large windows and potted plants. A dark green speech bubble is positioned in the upper right corner of the image.

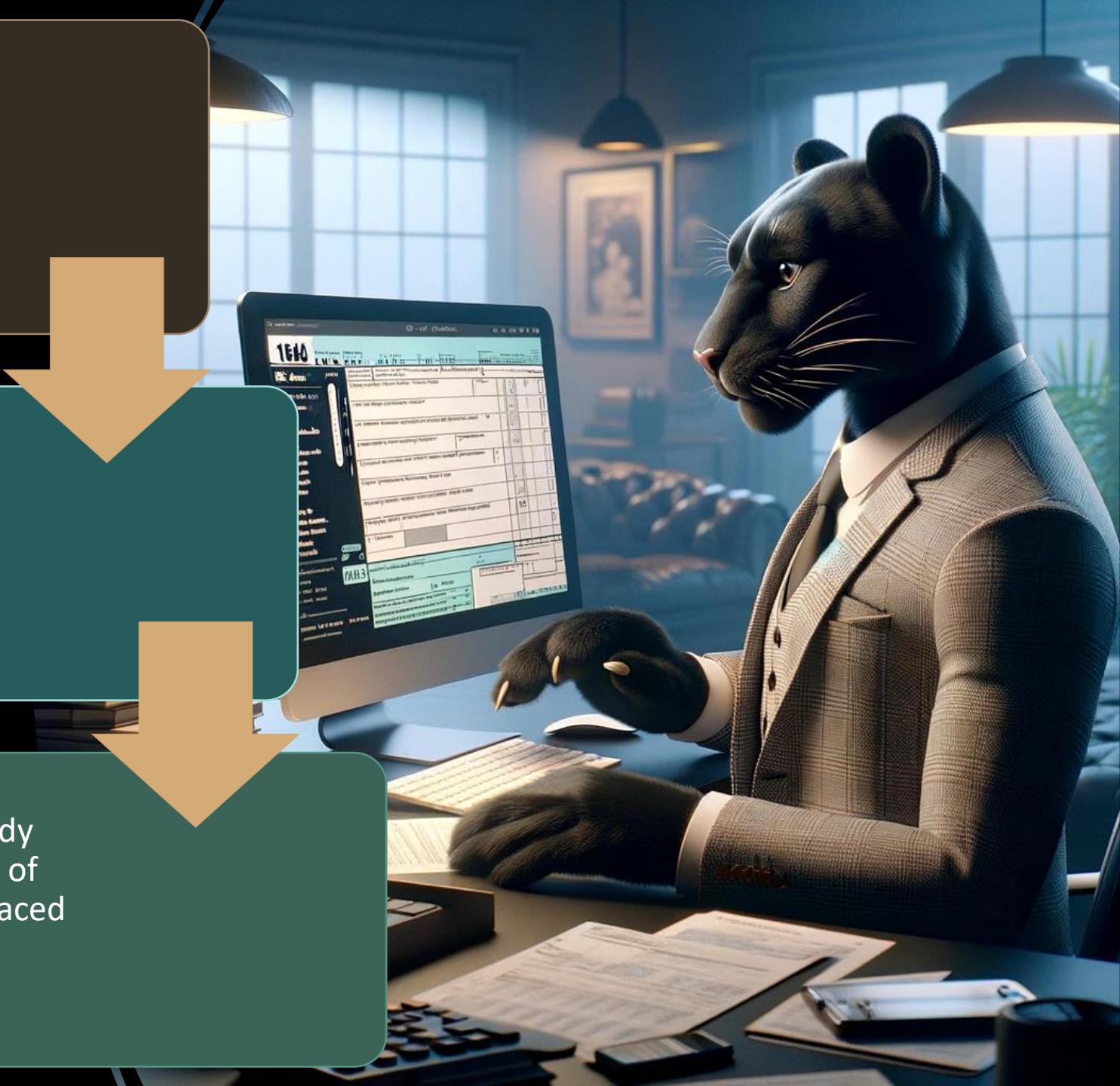
Placed in Service

You place property in service in a rental activity when it is ready and available for a specific use in that activity. Even if you aren't using the property, it is in service when it is ready and available for its specific use.

Example 1.

On November 22 of last year, you purchased a dishwasher for your rental property. The appliance was delivered on December 7, but wasn't installed and ready for use until January 3 of this year. Because the dishwasher wasn't ready for use last year, it isn't considered placed in service until this year.

If the appliance had been installed and ready for use when it was delivered in December of last year, it would have been considered placed in service in December, even if it wasn't actually used until this year.





Example 2.

On April 6, you purchased a house to use as residential rental property.

You made extensive repairs to the house and had it ready for rent on July 5.

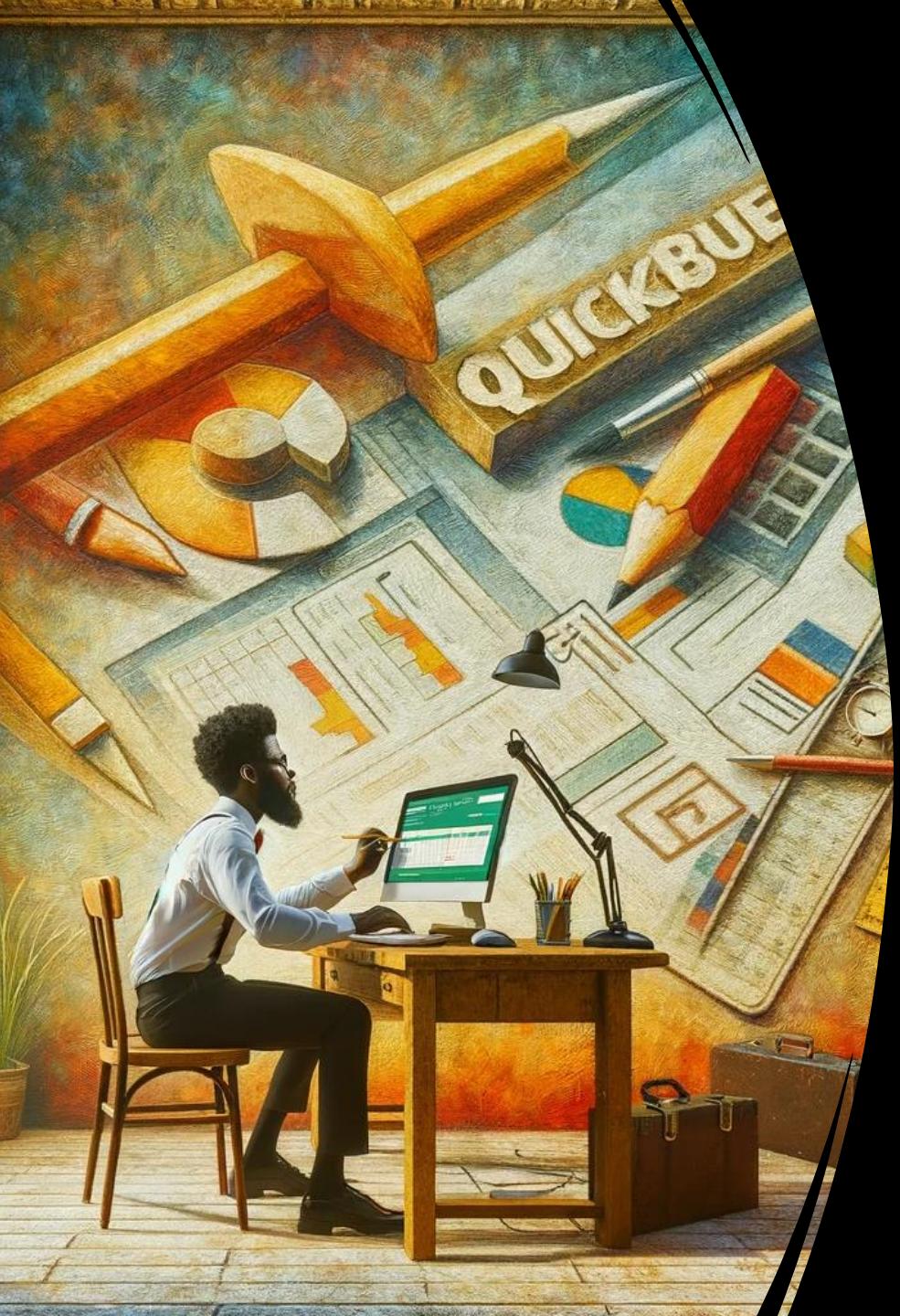
You began to advertise the house for rent in July and actually rented it beginning September 1.

The house is considered placed in service in July when it was ready and available for rent. You can begin to depreciate the house in July.

Example 3.

- You moved from your home in July. During August and September, you made several repairs to the house.
- On October 1, you listed the property for rent with a real estate company, which rented it on December 1.
- The property is considered placed in service on October 1, the date when it was available for rent.





Conversion to business use.

- If you place property in service in a personal activity, you can't claim depreciation.
- However, if you change the property's use to business or the production of income, you can begin to depreciate it at the time of the change.
- You place the property in service for business or income-producing use on the date of the change.

- You bought a house and used it as your personal home several years before you converted it to rental property.
- Although its specific use was personal and no depreciation was allowable, you placed the home in service when you began using it as your home.
- You can begin to claim depreciation in the year you converted it to rental property because at that time its use changed to the production of income.

Example.





Idle Property

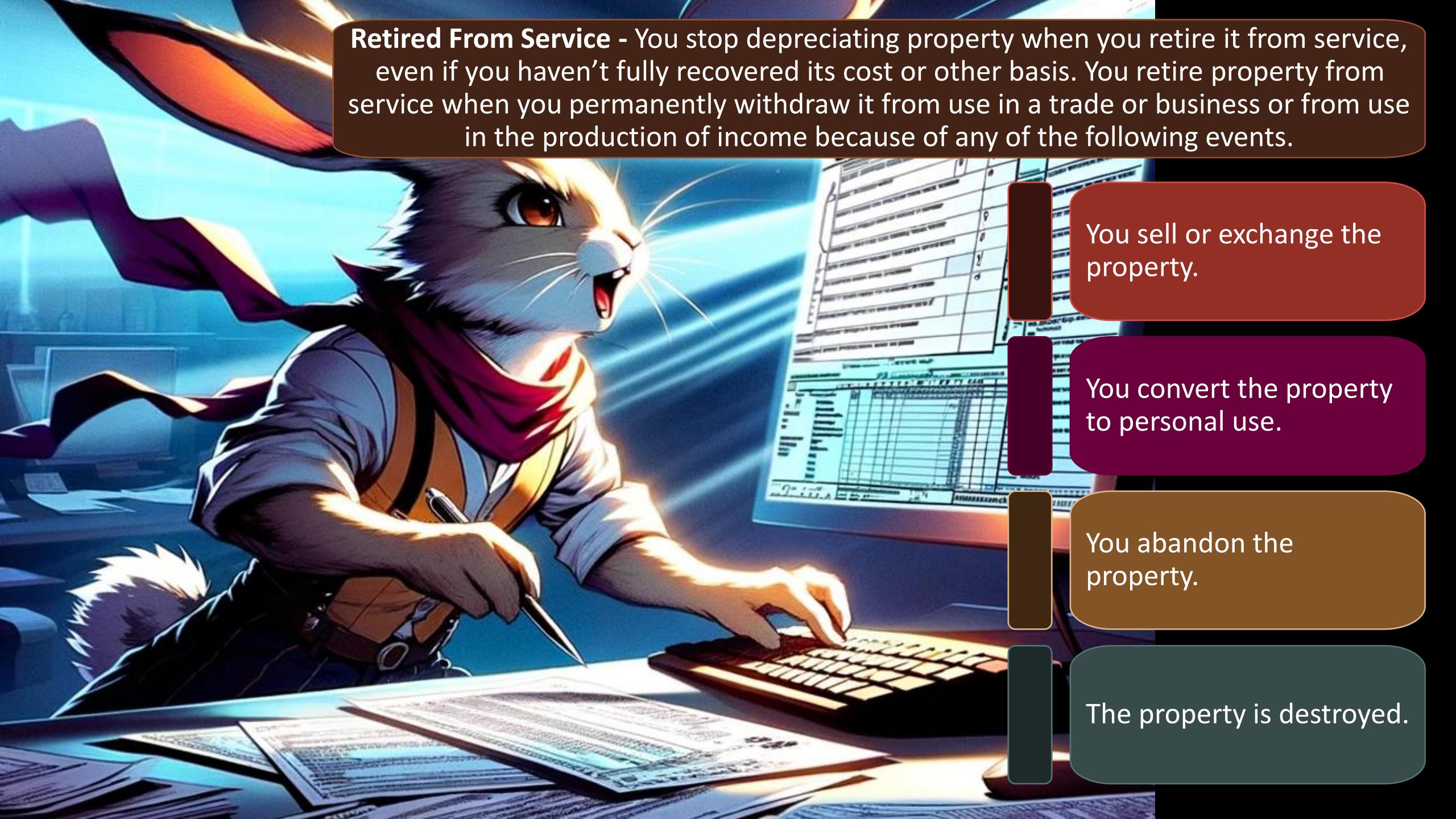
Continue to claim a deduction for depreciation on property used in your rental activity even if it is temporarily idle (not in use).

For example, if you must make repairs after a tenant moves out, you still depreciate the rental property during the time it isn't available for rent.

Cost or Other Basis Fully Recovered

- You must stop depreciating property when the total of your yearly depreciation deductions equals your cost or other basis of your property.
- For this purpose, your yearly depreciation deductions include any depreciation that you were allowed to claim, even if you didn't claim it. See *Basis of Depreciable Property*, later.





Retired From Service - You stop depreciating property when you retire it from service, even if you haven't fully recovered its cost or other basis. You retire property from service when you permanently withdraw it from use in a trade or business or from use in the production of income because of any of the following events.

You sell or exchange the property.

You convert the property to personal use.

You abandon the property.

The property is destroyed.



Depreciation Methods

Generally, you must use the Modified Accelerated Cost Recovery System (MACRS) to depreciate residential rental property placed in service after 1986.

If you placed rental property in service before 1987, you are using one of the following methods.

Accelerated Cost Recovery System (ACRS) for property placed in service after 1980 but before 1987.

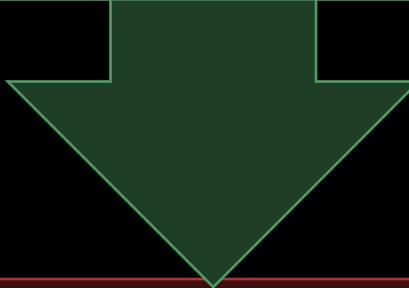
Straight line or declining balance method over the useful life of property placed in service before 1981.





Rental property placed in service before 2023.

Continue to use the same method of figuring depreciation that you used in the past.



Use of real property changed.

Generally, you must use MACRS to depreciate real property that you acquired for personal use before 1987 and changed to business or in-come-producing use after 1986. This includes your residence that you changed to rental use. See *Property Owned or Used in 1986* in chapter 1 of Pub. 946 for those situations in which MACRS isn't allowed.

Improvements made after 1986.

Treat an improvement made after 1986 to property you placed in service before 1987 as separate depreciable property.

As a result, you can depreciate that improvement as separate property under MACRS if it is the type of property that otherwise qualifies for MACRS depreciation.

For more information about improvements, see *Additions or improvements to property*, later in this chapter, under *Recovery Periods Under GDS*.





Basis of Depreciable Property

The basis of property used in a rental activity is generally its adjusted basis when you place it in service in that activity. This is its cost or other basis when you acquired it, adjusted for certain items occurring before you place it in service in the rental activity.

If you depreciate your property under MACRS, you may also have to reduce your basis by certain deductions and credits with respect to the property.

Basis and adjusted basis are explained in the following discussions.

Caution

- *If you used the property for personal purposes before changing it to rental use, its basis for depreciation is the lesser of its adjusted basis or its FMV when you change it to rental use. See Basis of Property Changed to Rental Use in chapter 4.*





Cost Basis

The basis of property you buy is usually its cost. The cost is the amount you pay for it in cash, in debt obligation, in other property, or in services. Your cost also includes amounts you pay for:

Sales tax charged on the purchase (but see Exception next),

Freight charges to obtain the property, and

Installation and testing charges.

Exception.

If you deducted state and local general sales taxes as an itemized deduction on Schedule A (Form 1040), don't include as part of your cost basis the sales taxes you deducted. Such taxes were deductible before 1987 and after 2003.





- If you buy property on any payment plan that charges little or no interest, the basis of your property is your stated purchase price, less the amount considered to be unstated interest. See *Unstated Interest and Original Issue Discount (OID)* in Pub. 537, Installment Sales.

Loans with low or no interest.

Real property.

- If you buy real property, such as a building and land, certain fees and other expenses you pay are part of your cost basis in the property.

Real estate taxes.

- If you buy real property and agree to pay real estate taxes on it that were owed by the seller and the seller doesn't reimburse you, the taxes you pay are treated as part of your basis in the property. You can't deduct them as taxes paid.
- If you reimburse the seller for real estate taxes the seller paid for you, you can usually deduct that amount. Don't include that amount in your basis in the property.





Settlement fees and other costs. The following settlement fees and closing costs for buying the property are part of your basis in the property.

Abstract fees.

Charges for installing utility services.

Legal fees.

Recording fees.

Surveys.

Transfer taxes.

Title insurance.

Any amounts the seller owes that you agree to pay, such as back taxes or interest, recording or mortgage fees, charges for improvements or repairs, and sales commissions.

The following are settlement fees and closing costs you can't include in your basis in the property.

Fire insurance premiums.

Rent or other charges relating to occupancy of the property before closing.

Charges connected with getting or refinancing a loan, such as:

Points (discount points, loan origination fees),

Loan assumption fees,

Cost of a credit report, and

Fees for an appraisal required by a lender.

Also, don't include amounts placed in escrow for the future payment of items such as taxes and insurance.





Assumption of a mortgage.

If you buy property and become liable for an existing mortgage on the property, your basis is the amount you pay for the property plus the amount remaining to be paid on the mortgage.

Example.

You buy a building for \$60,000 cash and assume a mortgage of \$240,000 on it. Your basis is \$300,000.

Separating cost of land and buildings.

If you buy buildings and your cost includes the cost of the land on which they stand, you must divide the cost between the land and the buildings to figure the basis for depreciation of the buildings.

The part of the cost that you allocate to each asset is the ratio of the FMV of that asset to the FMV of the whole property at the time you buy it.

If you aren't certain of the FMVs of the land and the buildings, you can divide the cost between them based on their assessed values for real estate tax purposes.





Example.

You buy a house and land for \$200,000. The purchase contract doesn't specify how much of the purchase price is for the house and how much is for the land.

The latest real estate tax assessment on the property was based on an assessed value of \$160,000, of which \$136,000 was for the house and \$24,000 was for the land.

You can allocate 85% ($\$136,000 \div \$160,000$) of the purchase price to the house and 15% ($\$24,000 \div \$160,000$) of the purchase price to the land.

Your basis in the house is \$170,000 (85% of \$200,000) and your basis in the land is \$30,000 (15% of \$200,000).

Basis Other Than Cost

You can't use cost as a basis for property that you received:

In return for services you performed;

In an exchange for other property;

As a gift;

From your spouse, or from your former spouse as the result of a divorce; or

As an inheritance.





Adjusted Basis

- To figure your property's basis for depreciation, you may have to make certain adjustments (increases and decreases) to the basis of the property for events occurring between the time you acquired the property and the time you placed it in service for business or the production of income. The result of these adjustments to the basis is the adjusted basis.

Increases to basis. You must increase the basis of any property by the cost of all items properly added to a capital account. These include the following.

The cost of any additions or improvements made before placing your property into service as a rental that have a useful life of more than 1 year.

Amounts spent after a casualty to restore the damaged property.

The cost of extending utility service lines to the property.

Legal fees, such as the cost of defending and perfecting title, or settling zoning issues.





Additions or improvements.

Add to the basis of your property the amount an addition or improvement actually costs you, including any amount you borrowed to make the addition or improvement. This includes all direct costs, such as material and labor, but doesn't include your own labor. It also includes all expenses related to the addition or improvement.

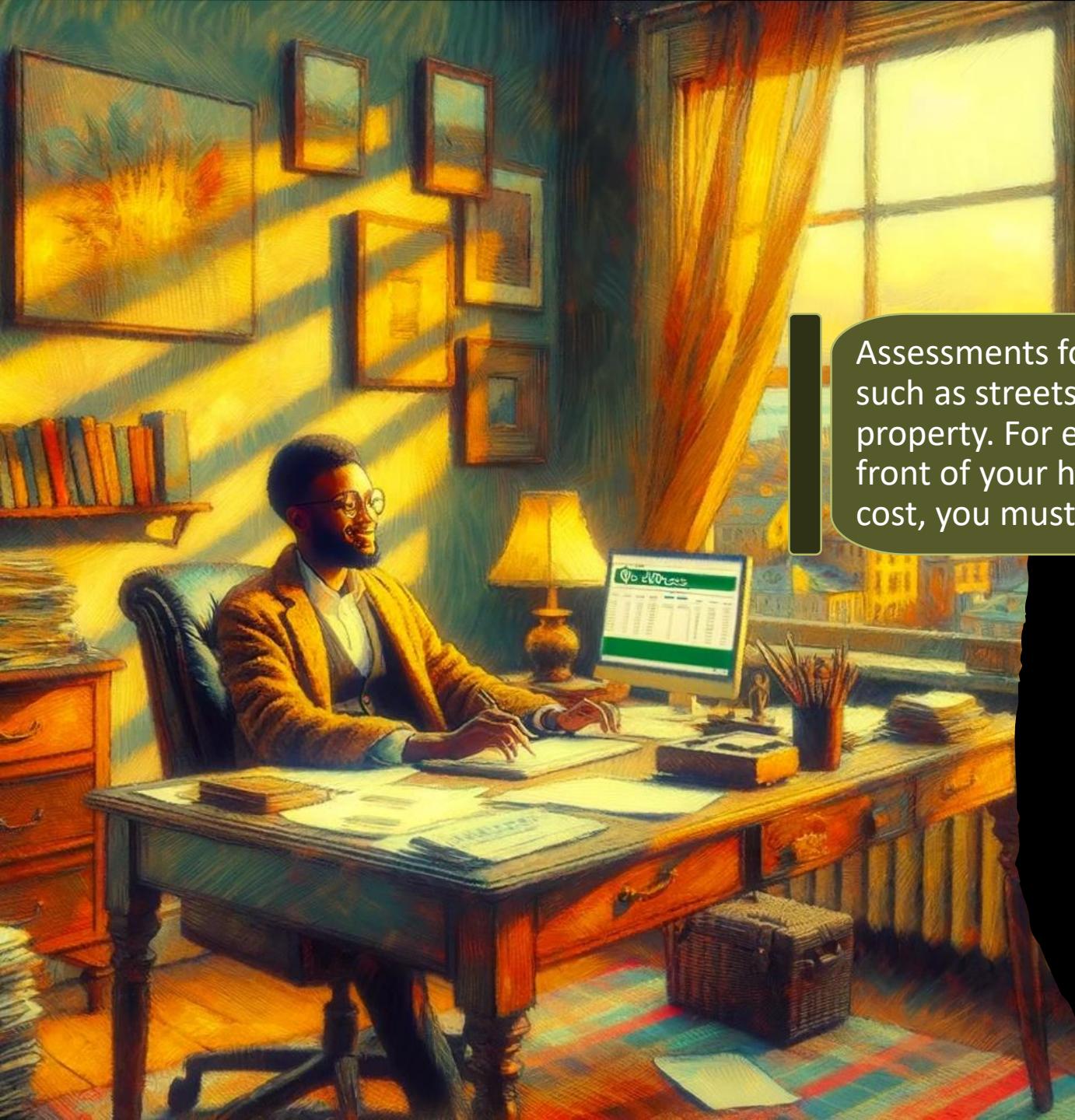
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Deducting vs. capitalizing costs.

Don't add to your basis costs you can deduct as current expenses. However, there are certain costs you can choose either to deduct or to capitalize. If you capitalize these costs, include them in your basis. If you deduct them, don't include them in your basis.

The costs you may choose to deduct or capitalize include carrying charges, such as interest and taxes, that you must pay to own property.

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Decreases to basis.

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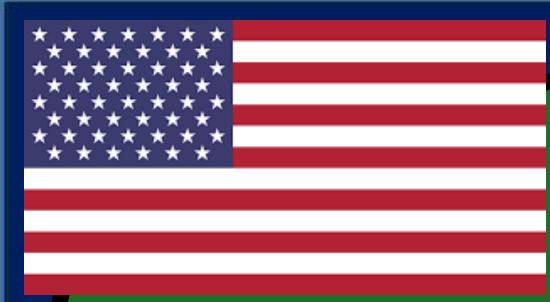
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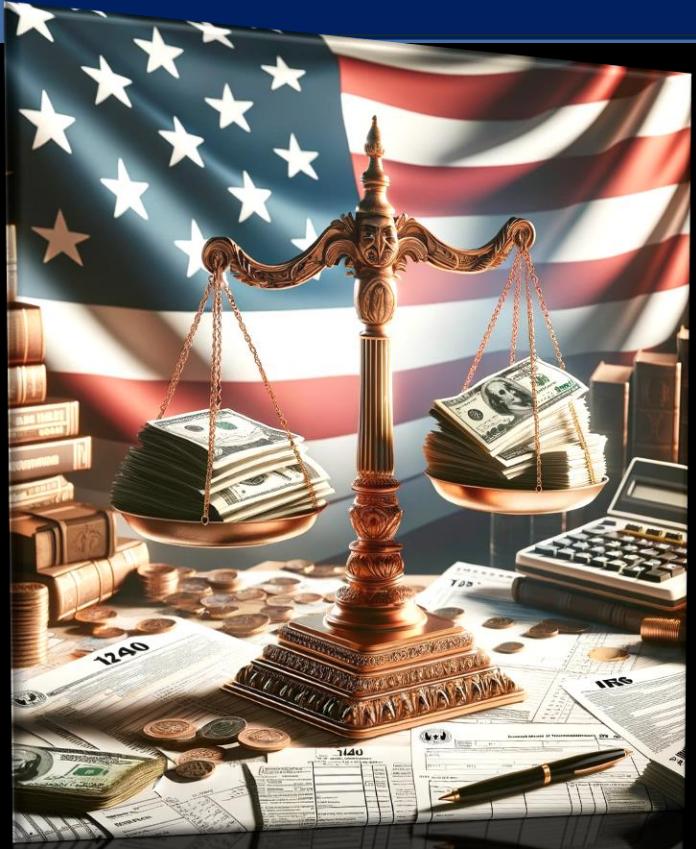
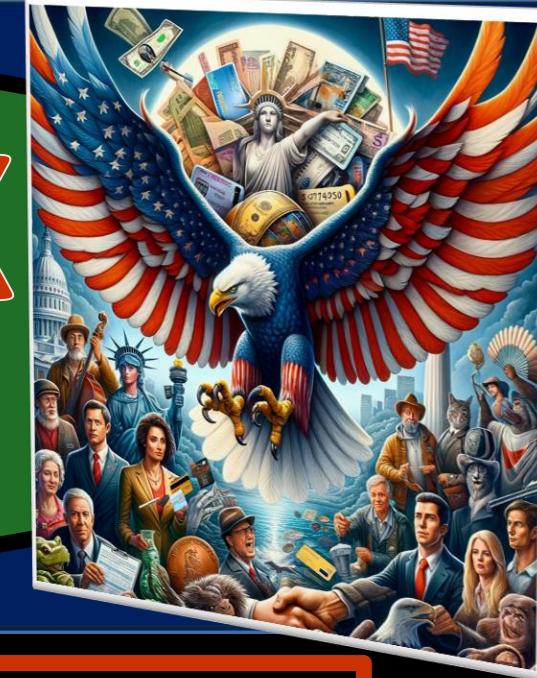
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Income Tax

2023-2024



Reporting Rental
Income, Expenses,
and Losses - Overview





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= **Adjusted Gross Income (AGI)**

- **Greater of:**

Standard Deduction or

Itemized Deduction

= **Taxable Income**

x **Tax Rates (Tax Tables)**

= **Tax Before Credits & Other Taxes**

- + **Tax Credits & Other Taxes**

= **Total Tax**

- **Tax Payments & Refundable Credits**

= **Tax Refund or Tax Due**

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
Attach Sch. B if required.		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
Standard Deduction for—		e Taxable dependent care benefits from Form 2441, line 26		1e
Single or Married filing separately, \$13,850		f Employer-provided adoption benefits from Form 8839, line 29		1f
Married filing jointly or Qualifying surviving spouse, \$27,700		g Wages from Form 8919, line 6		1g
Head of household, \$20,800		h Other earned income (see instructions)		1h
If you checked any box under Standard Deduction, see instructions.		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
2a Tax-exempt interest . . .		2a	b Taxable interest	2b
3a Qualified dividends . . .		3a	b Ordinary dividends	3b
4a IRA distributions . . .		4a	b Taxable amount	4b
5a Pensions and annuities . . .		5a	b Taxable amount	5b
6a Social security benefits . . .		6a	b Taxable amount	6b
c If you elect to use the lump-sum election method, check here (see instructions)				
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here				7
8 Additional income from Schedule 1, line 10				8
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9
10 Adjustments to income from Schedule 1, line 26				10
11 Subtract line 10 from line 9. This is your adjusted gross income				11
12 Standard deduction or itemized deductions (from Schedule A)				12
13 Qualified business income deduction from Form 8995 or Form 8995-A				13
14 Add lines 12 and 13				14
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income				15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		

Reporting Rental Income, Expenses, and Losses

Figuring the net income or loss for a residential rental activity may involve more than just listing the income and deductions on Schedule E (Form 1040). There are activities that don't qualify to use Schedule E, such as when the activity isn't engaged in to make a profit or when you provide substantial services in conjunction with the property.

There are also the limitations that may need to be applied if you have a net loss on Schedule E. There are two: (1) the limitation based on the amount of investment you have at risk in your rental activity, and (2) the special limits imposed on passive activities.

You may also have a gain or loss related to your rental property from a casualty or theft. This is considered separately from the income and expense information you report on Schedule E.





Which Forms To Use

The basic form for reporting residential rental income and expenses is Schedule E (Form 1040).

However, don't use that schedule to report a not-for-profit activity. See *Not Rented for Profit*, later, in chapter 4. There are also other rental situations in which forms other than Schedule E would be used.

Schedule E (Form 1040)

If you rent buildings, rooms, or apartments, and provide basic services such as heat and light, trash collection, etc., you normally report your rental income and expenses on Schedule E, Part I.

List your total income, expenses, and depreciation for each rental property. Be sure to enter the number of fair rental and personal-use days on line 2.

If you have more than three rental or royalty properties, complete and attach as many Schedules E as are needed to separately list all of the properties. However, fill in lines 23a through 26 on only one Schedule E. The figures on lines 23a through 26 on that Schedule E should be the combined totals for all properties reported on your Schedules E.

On Schedule E, page 1, line 18, enter the depreciation you are claiming for each property. You may also need to attach Form 4562 to claim some or all of your depreciation. See *Form 4562*, later, for more information.





If you have a loss from your rental real estate activity, you may also need to complete one or both of the following forms.

Form 6198,
At-Risk
Limitations.
See *At-Risk
Rules*, later.
Also, see
Pub. 925.

Form 8582,
Passive
Activity
Loss
Limitations.
See *Passive
Activity
Limits*, later.

Page 2 of Schedule E is used to report income or loss from partnerships, S corporations, estates, trusts, and real estate mortgage investment conduits.

If you need to use page 2 of Schedule E and you have more than three rental or royalty properties, be sure to use page 2 of the same Schedule E you used to enter the combined totals for your rental activity on page 1.

Also, include the amount from line 26 (Part I) in the “Total income or (loss)” on line 41 (Part V).





Form 4562.

You must complete and attach Form 4562 if you are claiming the following depreciation in your rental activity.

Depreciation, including the special depreciation allowance, on property placed in service during 2023.

Depreciation on listed property (such as a car), regardless of when it was placed in service.

Otherwise, figure your depreciation on your own worksheet. You don't have to attach these computations to your return, but you should keep them in your records for future reference.

You may also need to attach Form 4562 if you are claiming a section 179 deduction, amortizing costs that began during 2023, or claiming any other deduction for a vehicle, including the standard mileage rate or lease expenses.

See Pub. 946 for information on preparing Form 4562.





- Generally, Schedule C is used when you provide substantial services in conjunction with the property or the rental is part of a trade or business as a real estate dealer.

Schedule C (Form 1040), Profit or Loss From Business

Providing substantial services.

If you provide substantial services that are primarily for your tenant's convenience, such as regular cleaning, changing linen, or maid service, you report your rental income and expenses on Schedule C. Use Form 1065, U.S. Return of Partnership Income, if your rental activity is a partnership (including a partnership with your spouse unless it is a qualified joint venture).

Substantial services don't include the furnishing of heat and light, cleaning of public areas, trash collection, etc. For more information, see Pub. 334, Tax Guide for Small Business. Also, you may have to pay self-employment tax on your rental income using Schedule SE (Form 1040), Self-Employment Tax. For a discussion of "substantial services," see *Real Estate Rents* in chapter 5 of Pub. 334.



Qualified Joint Venture (QJV)



If you and your spouse each materially participate (see *Material participation* under *Passive Activity Limits*, later) as the only members of a jointly owned and operated real estate business, and you file a joint return for the tax year, you can make a joint election to be treated as a QJV in stead of a partnership.

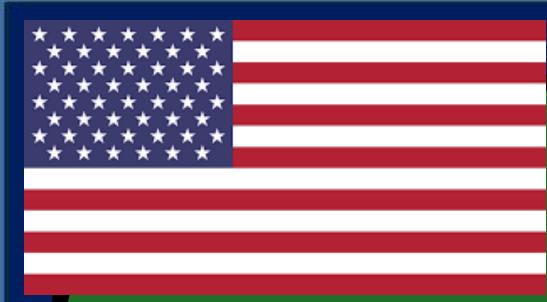
This election, in most cases, won't increase the total tax owed on the joint return, but it does give each of you credit for social security earnings on which retirement benefits are based and for Medicare coverage if your rental income is subject to self-employment tax.

If you make this election, you must report rental real estate income on Schedule E (or Schedule C, if you provide substantial services).

You won't be required to file Form 1065 for any year the election is in effect. Rental real estate income generally isn't included in net earnings from self-employment subject to self-employment tax and is generally subject to the passive activity limits.

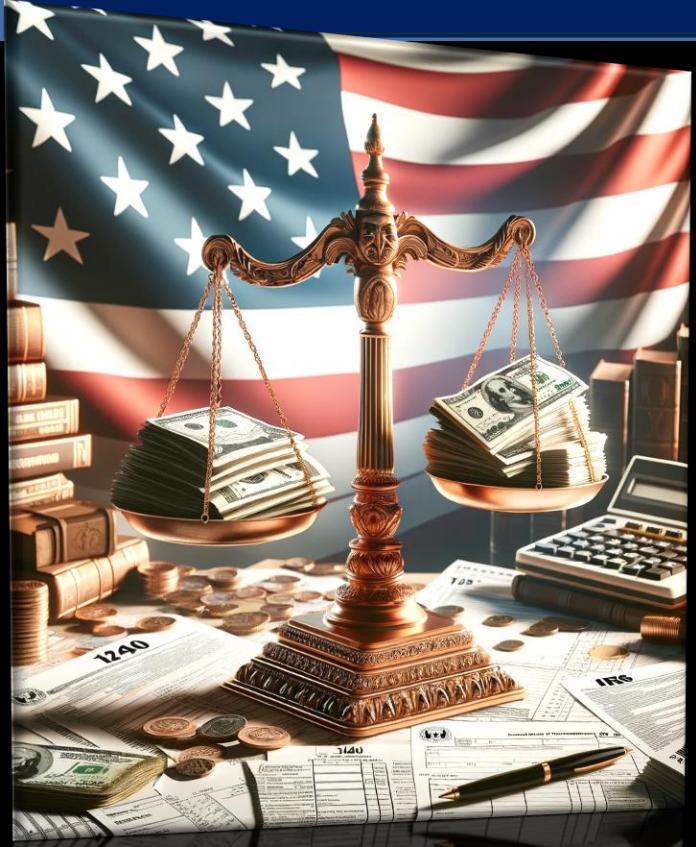
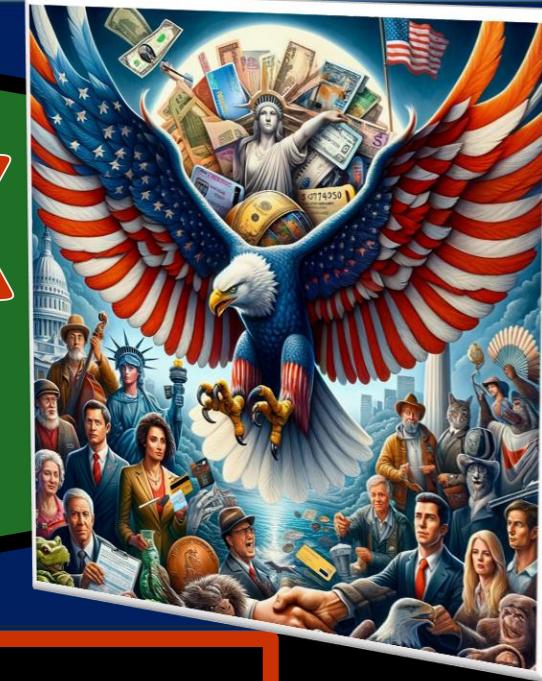
If you and your spouse filed a Form 1065 for the year prior to the election, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.





Income Tax

2023-2024



Reporting Rental
Income, Expenses, and
Losses – Limits on
Rental Losses





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= **Adjusted Gross Income (AGI)**

- **Greater of:**

Standard Deduction or

Itemized Deduction

= **Taxable Income**

x **Tax Rates (Tax Tables)**

= **Tax Before Credits & Other Taxes**

- + **Tax Credits & Other Taxes**

= **Total Tax**

- **Tax Payments & Refundable Credits**

= **Tax Refund or Tax Due**

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		

Limits on Rental Losses - If you have a loss from your rental real estate activity, two sets of rules may limit the amount of loss you can report on Schedule E.

You must consider these rules in the order shown below. Both are discussed in this section.

At-risk rules. These rules are applied first if there is investment in your rental real estate activity for which you aren't at risk. This applies only if the real property was placed in service after 1986.

Passive activity limits. Generally, rental real estate activities are considered passive activities and losses aren't deductible unless you have income from other passive activities to offset them. However, there are exceptions.





Excess business loss limitation.

In addition to at-risk rules and passive activity limits, excess business loss rules apply to losses from all noncorporate trades or businesses.

This business loss limitation is figured using Form 461 after you complete your Schedule E.

Any limitation to your loss resulting from these rules will not be reflected on your Schedule E.

Instead, it will be added to your income on Form 1040 or 1040-SR and treated as a net operating loss that must be carried forward and deducted in a subsequent year.

At-Risk Rules - You may be subject to the at-risk rules if you have:

A loss from an activity carried on as a trade or business or for the production of income, and

Amounts invested in the activity for which you aren't fully at risk.





Losses from holding real property (other than mineral property) placed in service before 1987 aren't subject to the at-risk rules.

In most cases, any loss from an activity subject to the at-risk rules is allowed only to the extent of the total amount you have at risk in the activity at the end of the tax year.

You are considered at risk in an activity to the extent of cash and the adjusted basis of other property you contributed to the activity and certain amounts borrowed for use in the activity.

Any loss that is disallowed because of the at-risk limits is treated as a deduction from the same activity in the next tax year. See Pub. 925 for a discussion of the at-risk rules.

Form 6198. If you are subject to the at-risk rules, file Form 6198 with your tax return.

Passive Activity Limits

In most cases, all rental real estate activities (except those of certain real estate professionals, discussed later) are passive activities. For this purpose, a rental activity is an activity from which you receive income mainly for the use of tangible property, rather than for services. For a discussion of activities that aren't considered rental activities, see *Rental Activities* in Pub. 925.

Deductions or losses from passive activities are limited. You generally can't offset income, other than passive income, with losses from passive activities. Nor can you off-set taxes on income, other than passive income, with credits resulting from passive activities.

Any excess loss or credit is carried forward to the next tax year. Exceptions to the rules for figuring passive activity limits for personal use of a dwelling unit and for rental real estate with active participation are discussed later.

For a detailed discussion of these rules, see Pub. 925.



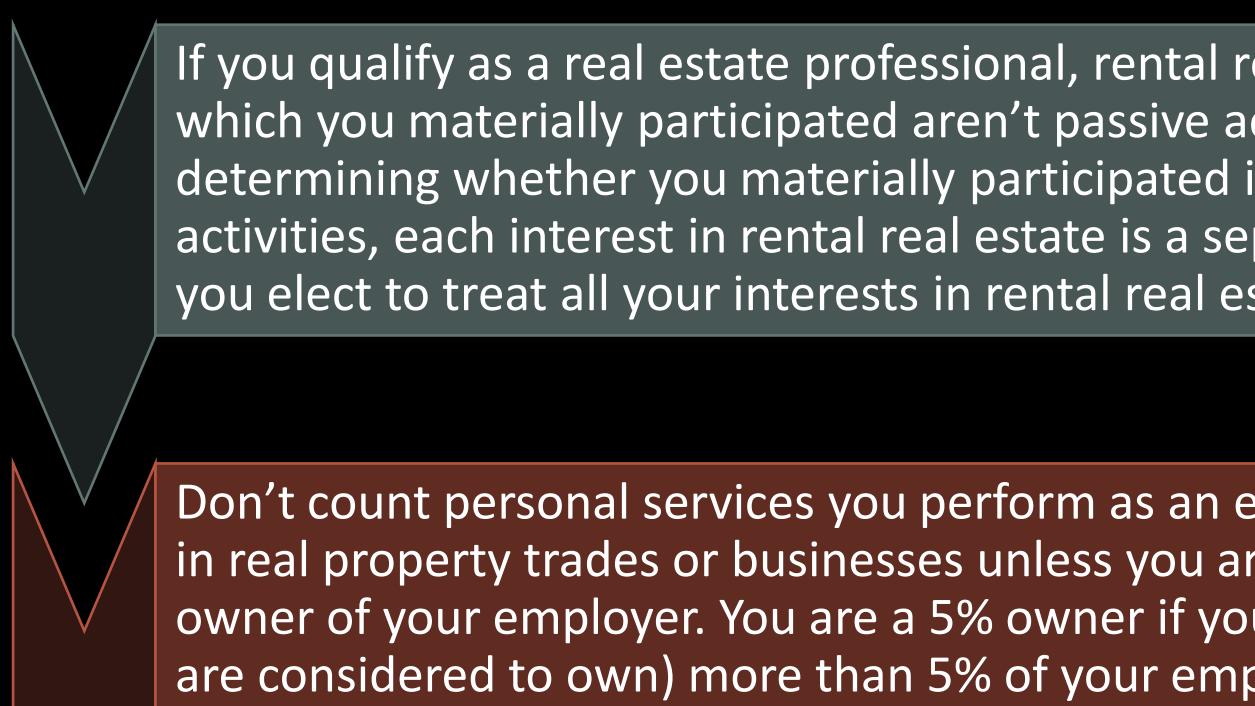


Real estate professionals.

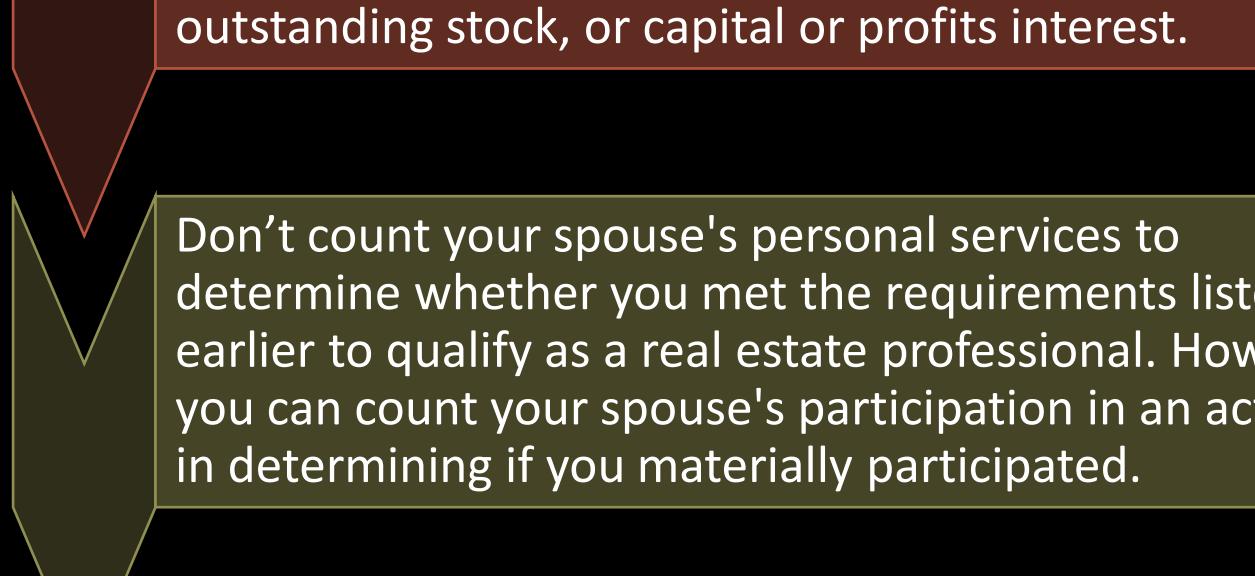
If you are a real estate professional, complete line 43 of Schedule E. You qualify as a real estate professional for the tax year if you meet both of the following requirements.

More than half of the personal services you perform in all trades or businesses during the tax year are performed in real property trades or businesses in which you materially participate.

You perform more than 750 hours of services during the tax year in real property trades or businesses in which you materially participate.



If you qualify as a real estate professional, rental real estate activities in which you materially participated aren't passive activities. For purposes of determining whether you materially participated in your rental real estate activities, each interest in rental real estate is a separate activity unless you elect to treat all your interests in rental real estate as one activity.



Don't count personal services you perform as an employee in real property trades or businesses unless you are a 5% owner of your employer. You are a 5% owner if you own (or are considered to own) more than 5% of your employer's outstanding stock, or capital or profits interest.



Don't count your spouse's personal services to determine whether you met the requirements listed earlier to qualify as a real estate professional. However, you can count your spouse's participation in an activity in determining if you materially participated.





Real property trades or businesses. A real property trade or business is a trade or business that does any of the following with real property.



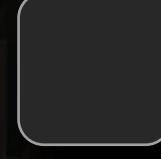
Develops or
redevelops it.



Constructs or
reconstructs it.



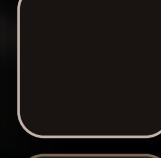
Acquires
it.



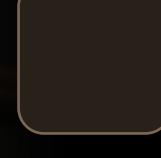
Converts
it.



Rents or
leases it.



Operates or
manages it.



Brokers
it.

Choice to treat all interests as one activity.

If you were a real estate professional and had more than one rental real estate interest during the year, you can choose to treat all the interests as one activity. You can make this choice for any year that you qualify as a real estate professional. If you forgo making the choice for one year, you can still make it for a later year.

If you make the choice, it is binding for the tax year you make it and for any later year that you are a real estate professional. This is true even if you aren't a real estate professional in any intervening year. (For that year, the exception for real estate professionals won't apply in determining whether your activity is subject to the passive activity rules.)

See the Instructions for Schedule E for information about making this choice.





Material participation.

- Generally, you materially participated in an activity for the tax year if you were involved in its operations on a regular, continuous, and substantial basis during the year. For details, see Pub. 925 or the Instructions for Schedule C.

Participating spouse.

- If you are married, determine whether you materially participated in an activity by also counting any participation in the activity by your spouse during the year. Do this even if your spouse owns no interest in the activity or files a separate return for the year.

Form 8582.

You may have to complete Form 8582 to figure the amount of any passive activity loss for the current tax year for all activities and the amount of the passive activity loss allowed on your tax return. See *Form 8582 not required*, later in this chapter, to determine if you must complete Form 8582.

If you are required to complete Form 8582 and are also subject to the at-risk rules, include the amount from Form 6198, line 21 (deductible loss), in column (b) of Form 8582, Worksheet 1 or 2, as required.





Exception for Personal Use of Dwelling Unit

- If you used the rental property as a home during the year, any income, deductions, gain, or loss allocable to such use is not to be taken into account for purposes of the passive activity loss limitation. Instead, follow the rules explained in chapter 5.

Exception for Rental Real Estate With Active Participation

- If you or your spouse actively participated in a passive rental real estate activity, you may be able to deduct up to \$25,000 of loss from the activity from your nonpassive income.
- This special allowance is an exception to the general rule disallowing losses in excess of income from passive activities. Similarly, you may be able to offset credits from the activity against the tax on up to \$25,000 of non-passive income after taking into account any losses allowed under this exception.

Example.

You are single and have \$40,000 in wages, \$2,000 of passive income from a limited partnership, and \$3,500 of passive loss from a rental real estate activity in which you actively participated. \$2,000 of your \$3,500 loss offsets your passive income. The remaining \$1,500 loss can be deducted from your \$40,000 wages.

Caution

The special allowance isn't available if you were married, lived with your spouse at any time during the year, and are filing a separate return.





Active participation.

You actively participated in a rental real estate activity if you (and your spouse) owned at least 10% of the rental property and you made management decisions or arranged for others to provide services (such as repairs) in a significant and bona fide sense.

Management decisions that may count as active participation include approving new tenants, deciding on rental terms, approving expenditures, and other similar decisions.

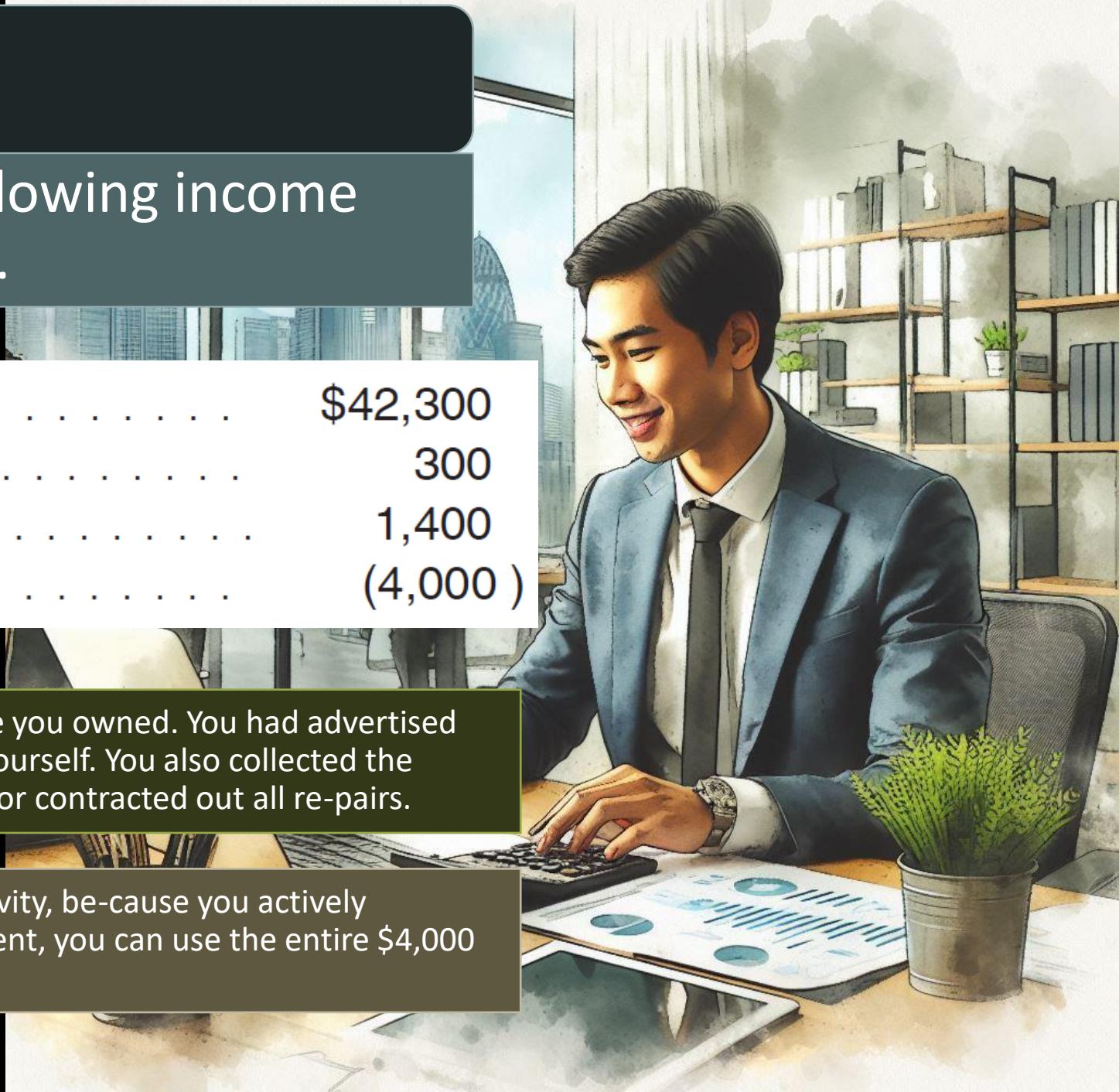
Example.

- You are single and had the following income and losses during the tax year.

Salary	\$42,300
Dividends	300
Interest	1,400
Rental loss	(4,000)

The rental loss was from the rental of a house you owned. You had advertised and rented the house to the current tenant yourself. You also collected the rents, which usually came by mail. You made or contracted out all re-pairs.

Although the rental loss is from a passive activity, because you actively participated in the rental property management, you can use the entire \$4,000 loss to offset your other income.





Maximum special allowance.

The maximum special allowance is:

\$25,000 for single individuals and married individuals filing a joint return for the tax year,

\$12,500 for married individuals who file separate returns for the tax year and lived apart from their spouses at all times during the tax year, and

\$25,000 for a qualifying estate reduced by the special allowance for which the surviving spouse qualified.

If your MAGI is \$100,000 or less (\$50,000 or less if married filing separately), you can deduct your loss up to the amount specified above.

If your MAGI is more than \$100,000 (more than \$50,000 if married filing separately), your special allowance is limited to 50% of the difference between \$150,000 (\$75,000 if married filing separately) and your MAGI.

Generally, if your MAGI is \$150,000 or more (\$75,000 or more if you are married filing separately), there is no special allowance.



Modified adjusted gross income (MAGI). This is your adjusted gross income from Form 1040, 1040-SR, or 1040-NR, line 11, figured without taking into account:



The taxable amount of social security or equivalent tier 1 railroad retirement benefits,

The deductible contributions to traditional individual retirement accounts (IRAs) and section 501(c)(18) pension plans,

The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher educational expenses,

The exclusion of amounts received under an employer's adoption assistance program,

Any passive activity income or loss included on Form 8582,

Any rental real estate loss allowed to real estate professionals,

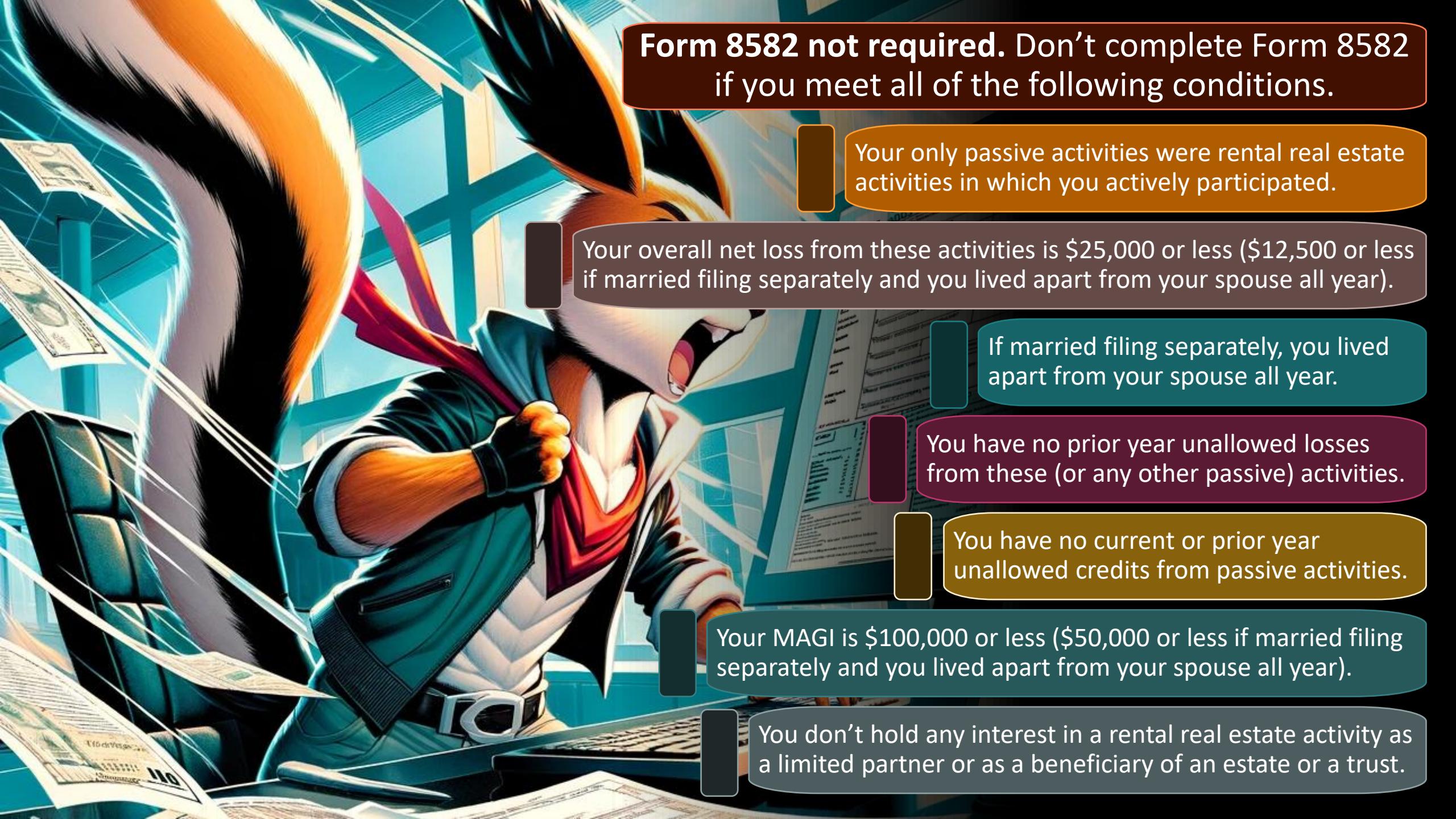
Any overall loss from a publicly traded partnership (see Publicly Traded Partnerships (PTPs) in the Instructions for Form 8582),

The deduction allowed for one-half of self-employment tax,

The deduction allowed for interest paid on student loans, and

The deduction allowed for foreign-derived intangible income and global intangible low-taxed income.





Form 8582 not required. Don't complete Form 8582 if you meet all of the following conditions.

Your only passive activities were rental real estate activities in which you actively participated.

Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately and you lived apart from your spouse all year).

If married filing separately, you lived apart from your spouse all year.

You have no prior year unallowed losses from these (or any other passive) activities.

You have no current or prior year unallowed credits from passive activities.

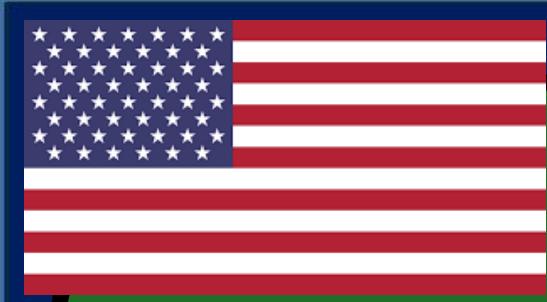
Your MAGI is \$100,000 or less (\$50,000 or less if married filing separately and you lived apart from your spouse all year).

You don't hold any interest in a rental real estate activity as a limited partner or as a beneficiary of an estate or a trust.

If you meet all of the conditions listed above, your rental real estate activities aren't limited by the passive activity rules and you don't have to complete Form 8582.

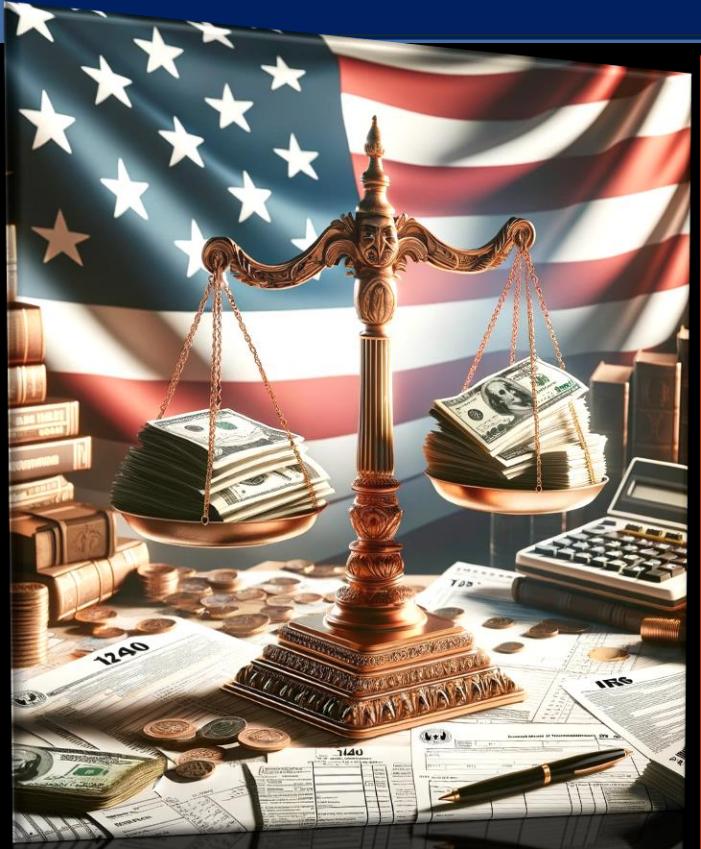
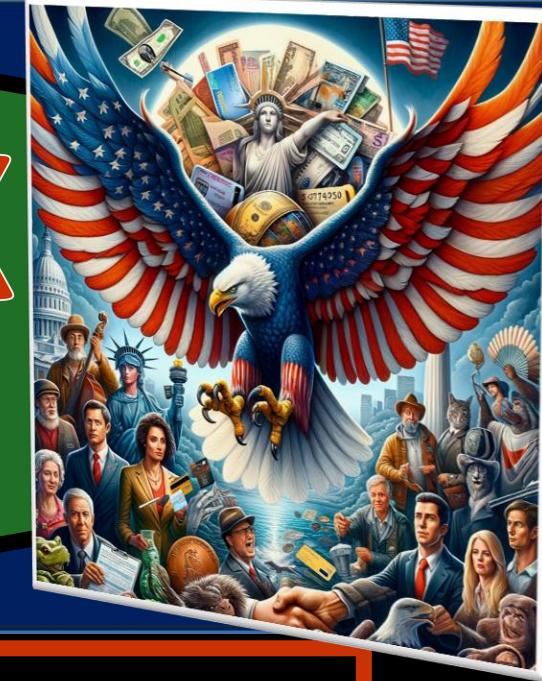
On lines 23a through 23e of your Schedule E, enter the applicable amounts.





Income Tax

2023-2024



Reporting Rental
Income, Expenses, and
Losses - Casualties &
Thefts





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= Adjusted Gross Income (AGI)

- Greater of:

Standard Deduction or

Itemized Deduction

= Taxable Income

x Tax Rates (Tax Tables)

= Tax Before Credits & Other Taxes

- + Tax Credits & Other Taxes

= Total Tax

- Tax Payments & Refundable Credits

= Tax Refund or Tax Due

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
Attach Sch. B if required.		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
Standard Deduction for—		e Taxable dependent care benefits from Form 2441, line 26		1e
Single or Married filing separately, \$13,850		f Employer-provided adoption benefits from Form 8839, line 29		1f
Married filing jointly or Qualifying surviving spouse, \$27,700		g Wages from Form 8919, line 6		1g
Head of household, \$20,800		h Other earned income (see instructions)		1h
If you checked any box under Standard Deduction, see instructions.		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
2a Tax-exempt interest . . .		2a	b Taxable interest	2b
3a Qualified dividends . . .		3a	b Ordinary dividends	3b
4a IRA distributions . . .		4a	b Taxable amount	4b
5a Pensions and annuities . . .		5a	b Taxable amount	5b
6a Social security benefits . . .		6a	b Taxable amount	6b
c If you elect to use the lump-sum election method, check here (see instructions)				
7 Capital gain or (loss). Attach Schedule D if required. If not required, check here				7
8 Additional income from Schedule 1, line 10				8
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income				9
10 Adjustments to income from Schedule 1, line 26				10
11 Subtract line 10 from line 9. This is your adjusted gross income				11
12 Standard deduction or itemized deductions (from Schedule A)				12
13 Qualified business income deduction from Form 8995 or Form 8995-A				13
14 Add lines 12 and 13				14
15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income				15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		



Casualties and Thefts

- As a result of a casualty or theft, you may have a loss related to your rental property. You may be able to deduct the loss on your income tax return.

Casualty.

- This is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. Such events include a storm, fire, or earthquake.

Theft.

- This is defined as the unlawful taking and removing of your money or property with the intent to deprive you of it.





Gain from casualty or theft.

It is also possible to have a gain from a casualty or theft if you receive money, including insurance, that is more than your adjusted basis in the property. Generally, you must report this gain. However, under certain circumstances, you may defer paying tax by choosing to postpone reporting the gain.

To do this, you must generally buy replacement property within 2 years after the close of the first tax year in which any part of your gain is realized. In certain circumstances, the replacement period can be greater than 2 years; see [Replacement Period](#) in Pub. 547 for more information.

The cost of the re-placement property must be equal to or more than the net insurance or other payment you received.

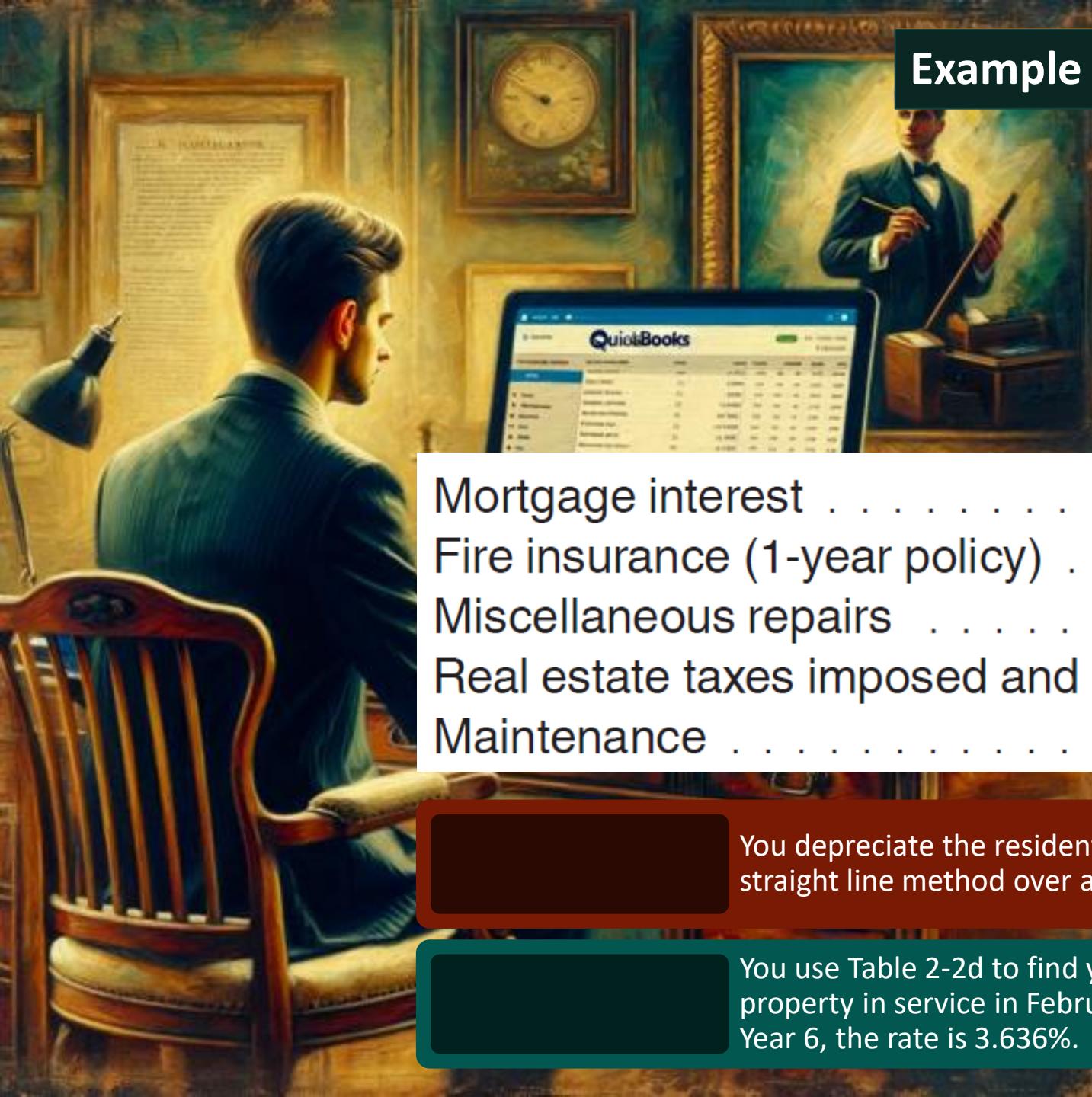
More information.

- For information on business and non-business casualty and theft losses, see Pub. 547.

How to report.

- If you had a casualty or theft that involved property used in your rental activity, figure the net gain or loss in Section B of Form 4684, Casualties and Thefts. Follow the Instructions for Form 4684 for where to carry your net gain or loss.





Example

In February 2018, you bought a rental house for \$135,000 (house \$120,000 and land \$15,000) and immediately began renting it out.

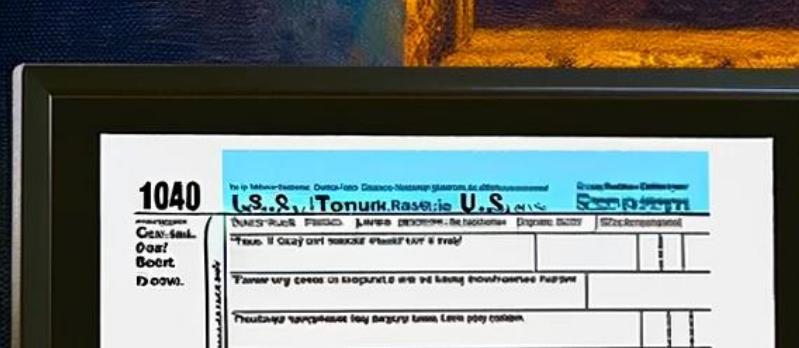
In 2023, you rented it all 12 months for a monthly rental fee of \$1,125. In addition to your rental in-come of \$13,500 ($12 \times \$1,125$), you had the following expenses.

Mortgage interest	\$8,000
Fire insurance (1-year policy)	250
Miscellaneous repairs	400
Real estate taxes imposed and paid	500
Maintenance	200

You depreciate the residential rental property under MACRS GDS. This means using the straight line method over a recovery period of 27.5 years.

You use Table 2-2d to find your depreciation percentage. Because you placed the property in service in February 2018, you continue to use that row of Table 2-2d. For Year 6, the rate is 3.636%.

You figure your net rental income or loss for the house as follows.



Total rental income received (\$1,125 x 12)	\$13,500
Minus: Expenses	
Mortgage interest	\$8,000
Fire insurance	250
Miscellaneous repairs	400
Real estate taxes	500
Maintenance	200
	<hr/>
Total expenses	9,350
	<hr/>
Balance	\$4,150
Minus: Depreciation (\$120,000 x 3.636% (0.03636))	4,363
	<hr/>
Net rental (loss) for house	(\$213)





You had a net loss for the year. Because you actively participated in your passive rental real estate activity and your loss was less than \$25,000, you can deduct the loss on your return. You also meet all of the requirements for not having to file Form 8582.

You use Schedule E, Part I, to report your rental income and expenses. You enter your income, expenses, and depreciation for the house in the column for Property A and enter your loss on line 22. Form 4562 isn't required.



Income Tax

2023-2024



Reporting Rental
Income, Expenses,
and Losses Example



Reporting Rental Income, Expenses, and Losses

Figuring the net income or loss for a residential rental activity may involve more than just listing the income and deductions on Schedule E (Form 1040). There are activities that don't qualify to use Schedule E, such as when the activity isn't engaged in to make a profit or when you provide substantial services in conjunction with the property.

There are also the limitations that may need to be applied if you have a net loss on Schedule E. There are two: (1) the limitation based on the amount of investment you have at risk in your rental activity, and (2) the special limits imposed on passive activities.

You may also have a gain or loss related to your rental property from a casualty or theft. This is considered separately from the income and expense information you report on Schedule E.





Which Forms To Use

The basic form for reporting residential rental income and expenses is Schedule E (Form 1040).

However, don't use that schedule to report a not-for-profit activity. See *Not Rented for Profit*, later, in chapter 4. There are also other rental situations in which forms other than Schedule E would be used.

Schedule E (Form 1040)

If you rent buildings, rooms, or apartments, and provide basic services such as heat and light, trash collection, etc., you normally report your rental income and expenses on Schedule E, Part I.

List your total income, expenses, and depreciation for each rental property. Be sure to enter the number of fair rental and personal-use days on line 2.

If you have more than three rental or royalty properties, complete and attach as many Schedules E as are needed to separately list all of the properties. However, fill in lines 23a through 26 on only one Schedule E. The figures on lines 23a through 26 on that Schedule E should be the combined totals for all properties reported on your Schedules E.

On Schedule E, page 1, line 18, enter the depreciation you are claiming for each property. You may also need to attach Form 4562 to claim some or all of your depreciation. See *Form 4562*, later, for more information.





If you have a loss from your rental real estate activity, you may also need to complete one or both of the following forms.

Form 6198,
At-Risk
Limitations.
See *At-Risk
Rules*, later.
Also, see
Pub. 925.

Form 8582,
Passive
Activity
Loss
Limitations.
See *Passive
Activity
Limits*, later.

Page 2 of Schedule E is used to report income or loss from partnerships, S corporations, estates, trusts, and real estate mortgage investment conduits.

If you need to use page 2 of Schedule E and you have more than three rental or royalty properties, be sure to use page 2 of the same Schedule E you used to enter the combined totals for your rental activity on page 1.

Also, include the amount from line 26 (Part I) in the “Total income or (loss)” on line 41 (Part V).





Form 4562.

You must complete and attach Form 4562 if you are claiming the following depreciation in your rental activity.

Depreciation, including the special depreciation allowance, on property placed in service during 2023.

Depreciation on listed property (such as a car), regardless of when it was placed in service.

Otherwise, figure your depreciation on your own worksheet. You don't have to attach these computations to your return, but you should keep them in your records for future reference.

You may also need to attach Form 4562 if you are claiming a section 179 deduction, amortizing costs that began during 2023, or claiming any other deduction for a vehicle, including the standard mileage rate or lease expenses.

See Pub. 946 for information on preparing Form 4562.





- Generally, Schedule C is used when you provide substantial services in conjunction with the property or the rental is part of a trade or business as a real estate dealer.

Schedule C (Form 1040), Profit or Loss From Business

Providing substantial services.

If you provide substantial services that are primarily for your tenant's convenience, such as regular cleaning, changing linen, or maid service, you report your rental income and expenses on Schedule C. Use Form 1065, U.S. Return of Partnership Income, if your rental activity is a partnership (including a partnership with your spouse unless it is a qualified joint venture).

Substantial services don't include the furnishing of heat and light, cleaning of public areas, trash collection, etc. For more information, see Pub. 334, Tax Guide for Small Business. Also, you may have to pay self-employment tax on your rental income using Schedule SE (Form 1040), Self-Employment Tax. For a discussion of "substantial services," see *Real Estate Rents* in chapter 5 of Pub. 334.



Qualified Joint Venture (QJV)



If you and your spouse each materially participate (see *Material participation* under *Passive Activity Limits*, later) as the only members of a jointly owned and operated real estate business, and you file a joint return for the tax year, you can make a joint election to be treated as a QJV in stead of a partnership.

This election, in most cases, won't increase the total tax owed on the joint return, but it does give each of you credit for social security earnings on which retirement benefits are based and for Medicare coverage if your rental income is subject to self-employment tax.

If you make this election, you must report rental real estate income on Schedule E (or Schedule C, if you provide substantial services).

You won't be required to file Form 1065 for any year the election is in effect. Rental real estate income generally isn't included in net earnings from self-employment subject to self-employment tax and is generally subject to the passive activity limits.

If you and your spouse filed a Form 1065 for the year prior to the election, the partnership terminates at the end of the tax year immediately preceding the year the election takes effect.



Limits on Rental Losses - If you have a loss from your rental real estate activity, two sets of rules may limit the amount of loss you can report on Schedule E.

You must consider these rules in the order shown below. Both are discussed in this section.

At-risk rules. These rules are applied first if there is investment in your rental real estate activity for which you aren't at risk. This applies only if the real property was placed in service after 1986.

Passive activity limits. Generally, rental real estate activities are considered passive activities and losses aren't deductible unless you have income from other passive activities to offset them. However, there are exceptions.





Excess business loss limitation.

In addition to at-risk rules and passive activity limits, excess business loss rules apply to losses from all noncorporate trades or businesses.

This business loss limitation is figured using Form 461 after you complete your Schedule E.

Any limitation to your loss resulting from these rules will not be reflected on your Schedule E.

Instead, it will be added to your income on Form 1040 or 1040-SR and treated as a net operating loss that must be carried forward and deducted in a subsequent year.

At-Risk Rules - You may be subject to the at-risk rules if you have:

A loss from an activity carried on as a trade or business or for the production of income, and

Amounts invested in the activity for which you aren't fully at risk.





Losses from holding real property (other than mineral property) placed in service before 1987 aren't subject to the at-risk rules.

In most cases, any loss from an activity subject to the at-risk rules is allowed only to the extent of the total amount you have at risk in the activity at the end of the tax year.

You are considered at risk in an activity to the extent of cash and the adjusted basis of other property you contributed to the activity and certain amounts borrowed for use in the activity.

Any loss that is disallowed because of the at-risk limits is treated as a deduction from the same activity in the next tax year. See Pub. 925 for a discussion of the at-risk rules.

Form 6198. If you are subject to the at-risk rules, file Form 6198 with your tax return.

Passive Activity Limits

In most cases, all rental real estate activities (except those of certain real estate professionals, discussed later) are passive activities. For this purpose, a rental activity is an activity from which you receive income mainly for the use of tangible property, rather than for services. For a discussion of activities that aren't considered rental activities, see *Rental Activities* in Pub. 925.

Deductions or losses from passive activities are limited. You generally can't offset income, other than passive income, with losses from passive activities. Nor can you off-set taxes on income, other than passive income, with credits resulting from passive activities.

Any excess loss or credit is carried forward to the next tax year. Exceptions to the rules for figuring passive activity limits for personal use of a dwelling unit and for rental real estate with active participation are discussed later.

For a detailed discussion of these rules, see Pub. 925.



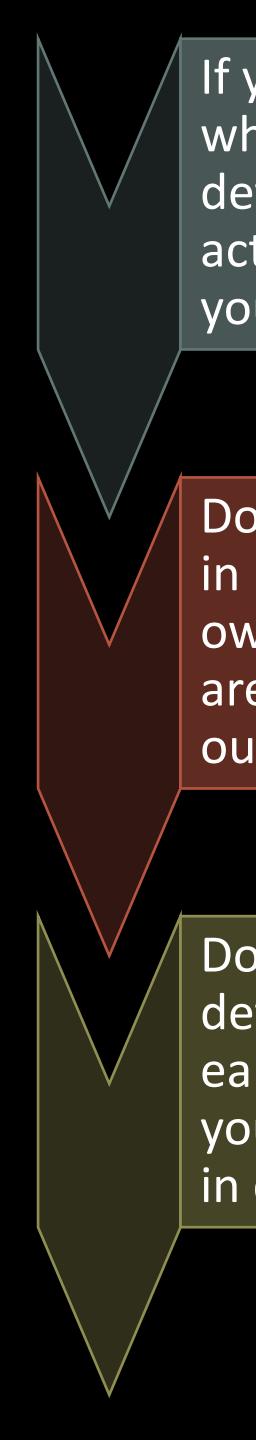


Real estate professionals.

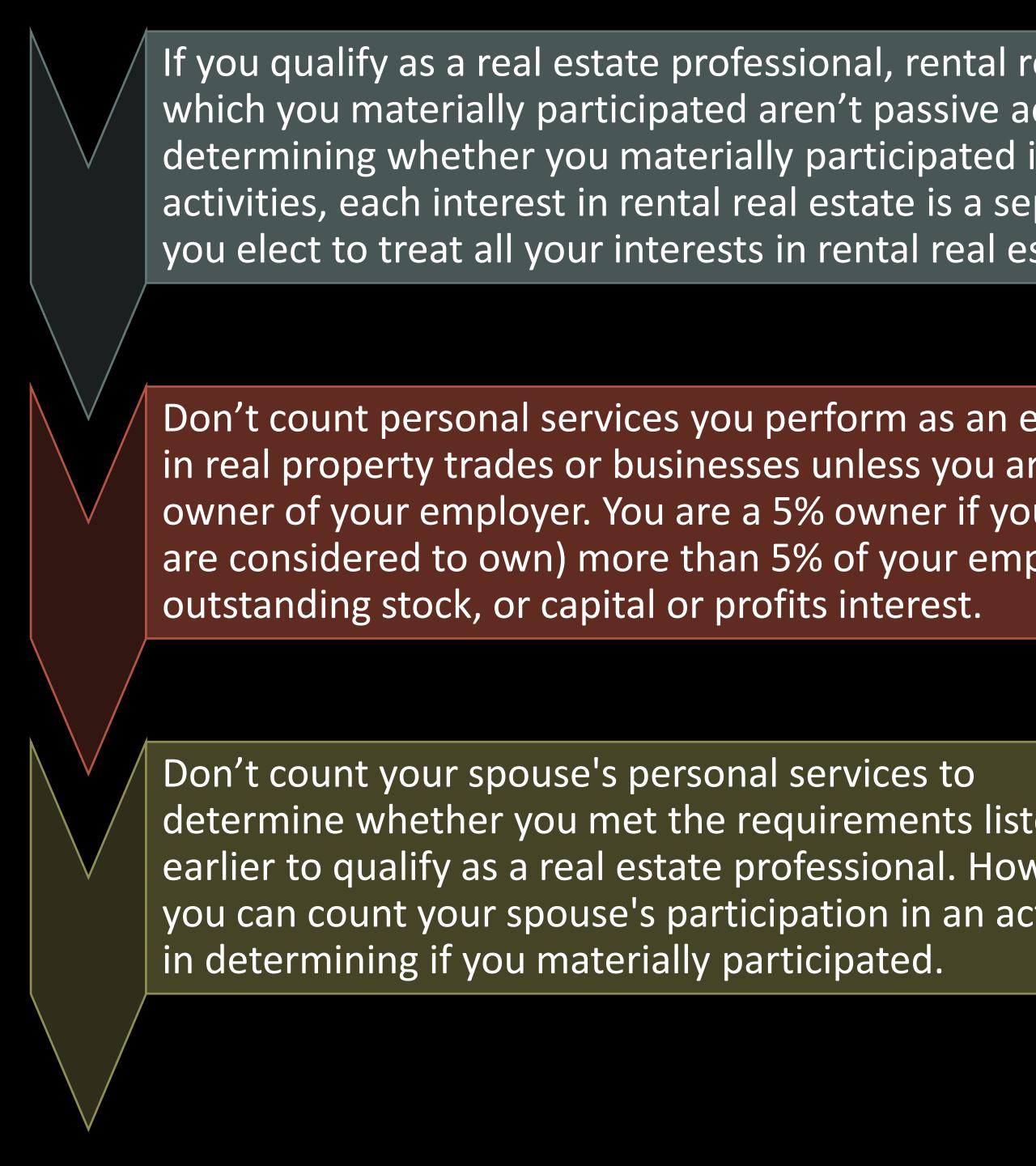
If you are a real estate professional, complete line 43 of Schedule E. You qualify as a real estate professional for the tax year if you meet both of the following requirements.

More than half of the personal services you perform in all trades or businesses during the tax year are performed in real property trades or businesses in which you materially participate.

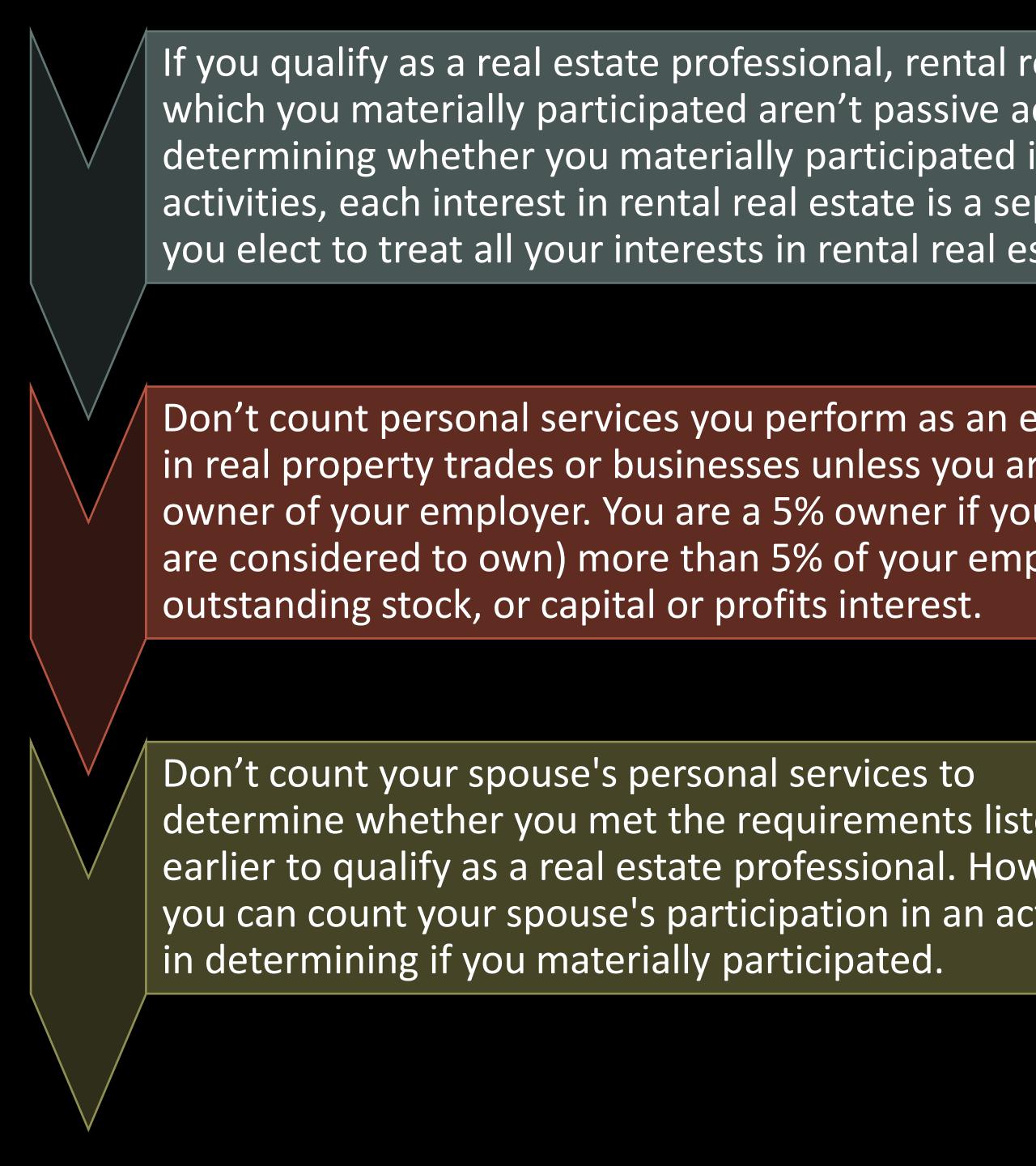
You perform more than 750 hours of services during the tax year in real property trades or businesses in which you materially participate.



If you qualify as a real estate professional, rental real estate activities in which you materially participated aren't passive activities. For purposes of determining whether you materially participated in your rental real estate activities, each interest in rental real estate is a separate activity unless you elect to treat all your interests in rental real estate as one activity.



Don't count personal services you perform as an employee in real property trades or businesses unless you are a 5% owner of your employer. You are a 5% owner if you own (or are considered to own) more than 5% of your employer's outstanding stock, or capital or profits interest.

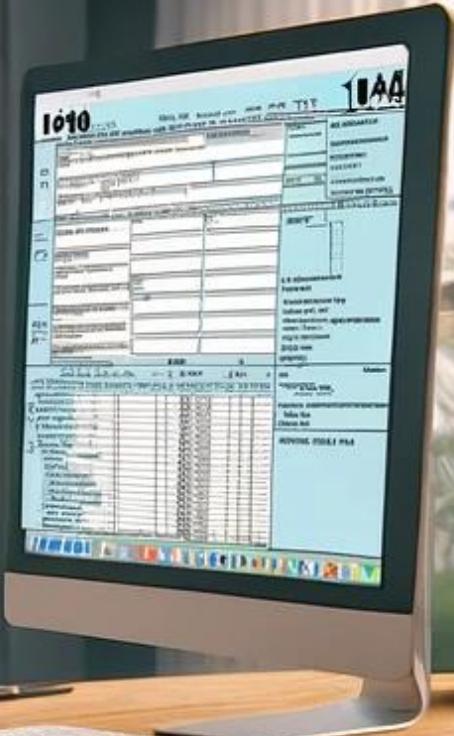


Don't count your spouse's personal services to determine whether you met the requirements listed earlier to qualify as a real estate professional. However, you can count your spouse's participation in an activity in determining if you materially participated.





Real property trades or businesses. A real property trade or business is a trade or business that does any of the following with real property.



Develops or
redevelops it.

Constructs or
reconstructs it.

Acquires
it.

Converts
it.

Rents or
leases it.

Operates or
manages it.

Brokers
it.

Choice to treat all interests as one activity.

If you were a real estate professional and had more than one rental real estate interest during the year, you can choose to treat all the interests as one activity. You can make this choice for any year that you qualify as a real estate professional. If you forgo making the choice for one year, you can still make it for a later year.

If you make the choice, it is binding for the tax year you make it and for any later year that you are a real estate professional. This is true even if you aren't a real estate professional in any intervening year. (For that year, the exception for real estate professionals won't apply in determining whether your activity is subject to the passive activity rules.)

See the Instructions for Schedule E for information about making this choice.





Material participation.

- Generally, you materially participated in an activity for the tax year if you were involved in its operations on a regular, continuous, and substantial basis during the year. For details, see Pub. 925 or the Instructions for Schedule C.

Participating spouse.

- If you are married, determine whether you materially participated in an activity by also counting any participation in the activity by your spouse during the year. Do this even if your spouse owns no interest in the activity or files a separate return for the year.

Form 8582.

You may have to complete Form 8582 to figure the amount of any passive activity loss for the current tax year for all activities and the amount of the passive activity loss allowed on your tax return. See *Form 8582 not required*, later in this chapter, to determine if you must complete Form 8582.

If you are required to complete Form 8582 and are also subject to the at-risk rules, include the amount from Form 6198, line 21 (deductible loss), in column (b) of Form 8582, Worksheet 1 or 2, as required.





Exception for Personal Use of Dwelling Unit

- If you used the rental property as a home during the year, any income, deductions, gain, or loss allocable to such use is not to be taken into account for purposes of the passive activity loss limitation. Instead, follow the rules explained in chapter 5.

Exception for Rental Real Estate With Active Participation

- If you or your spouse actively participated in a passive rental real estate activity, you may be able to deduct up to \$25,000 of loss from the activity from your nonpassive income.
- This special allowance is an exception to the general rule disallowing losses in excess of income from passive activities. Similarly, you may be able to offset credits from the activity against the tax on up to \$25,000 of non-passive income after taking into account any losses allowed under this exception.

Example.

You are single and have \$40,000 in wages, \$2,000 of passive income from a limited partnership, and \$3,500 of passive loss from a rental real estate activity in which you actively participated. \$2,000 of your \$3,500 loss offsets your passive income. The remaining \$1,500 loss can be deducted from your \$40,000 wages.

Caution

The special allowance isn't available if you were married, lived with your spouse at any time during the year, and are filing a separate return.





Active participation.

You actively participated in a rental real estate activity if you (and your spouse) owned at least 10% of the rental property and you made management decisions or arranged for others to provide services (such as repairs) in a significant and bona fide sense.

Management decisions that may count as active participation include approving new tenants, deciding on rental terms, approving expenditures, and other similar decisions.

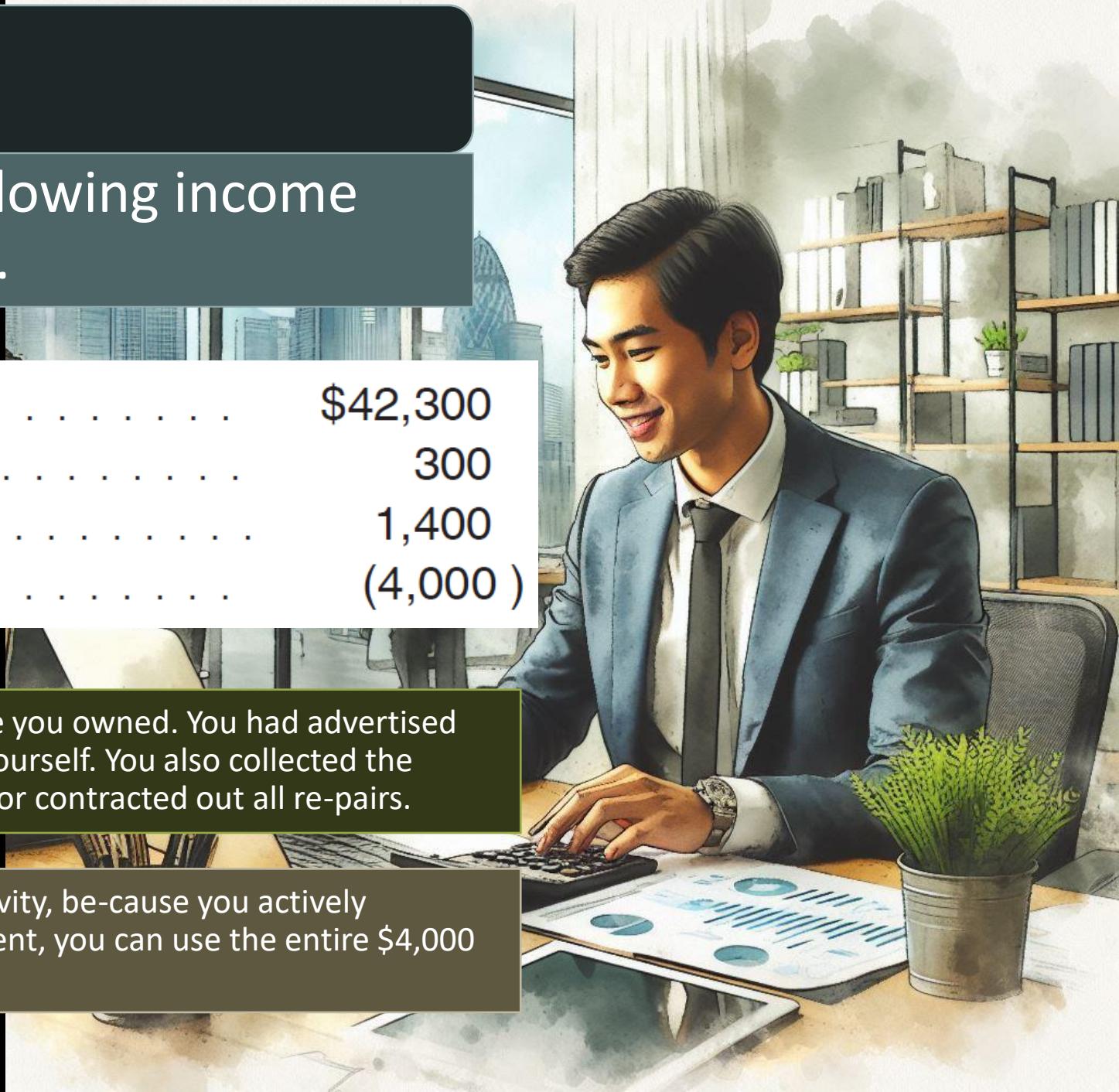
Example.

- You are single and had the following income and losses during the tax year.

Salary	\$42,300
Dividends	300
Interest	1,400
Rental loss	(4,000)

The rental loss was from the rental of a house you owned. You had advertised and rented the house to the current tenant yourself. You also collected the rents, which usually came by mail. You made or contracted out all re-pairs.

Although the rental loss is from a passive activity, because you actively participated in the rental property management, you can use the entire \$4,000 loss to offset your other income.





Maximum special allowance.

The maximum special allowance is:

\$25,000 for single individuals and married individuals filing a joint return for the tax year,

\$12,500 for married individuals who file separate returns for the tax year and lived apart from their spouses at all times during the tax year, and

\$25,000 for a qualifying estate reduced by the special allowance for which the surviving spouse qualified.

If your MAGI is \$100,000 or less (\$50,000 or less if married filing separately), you can deduct your loss up to the amount specified above.

If your MAGI is more than \$100,000 (more than \$50,000 if married filing separately), your special allowance is limited to 50% of the difference between \$150,000 (\$75,000 if married filing separately) and your MAGI.

Generally, if your MAGI is \$150,000 or more (\$75,000 or more if you are married filing separately), there is no special allowance.



Modified adjusted gross income (MAGI). This is your adjusted gross income from Form 1040, 1040-SR, or 1040-NR, line 11, figured without taking into account:



The taxable amount of social security or equivalent tier 1 railroad retirement benefits,

The deductible contributions to traditional individual retirement accounts (IRAs) and section 501(c)(18) pension plans,

The exclusion from income of interest from series EE and I U.S. savings bonds used to pay higher educational expenses,

The exclusion of amounts received under an employer's adoption assistance program,

Any passive activity income or loss included on Form 8582,

Any rental real estate loss allowed to real estate professionals,

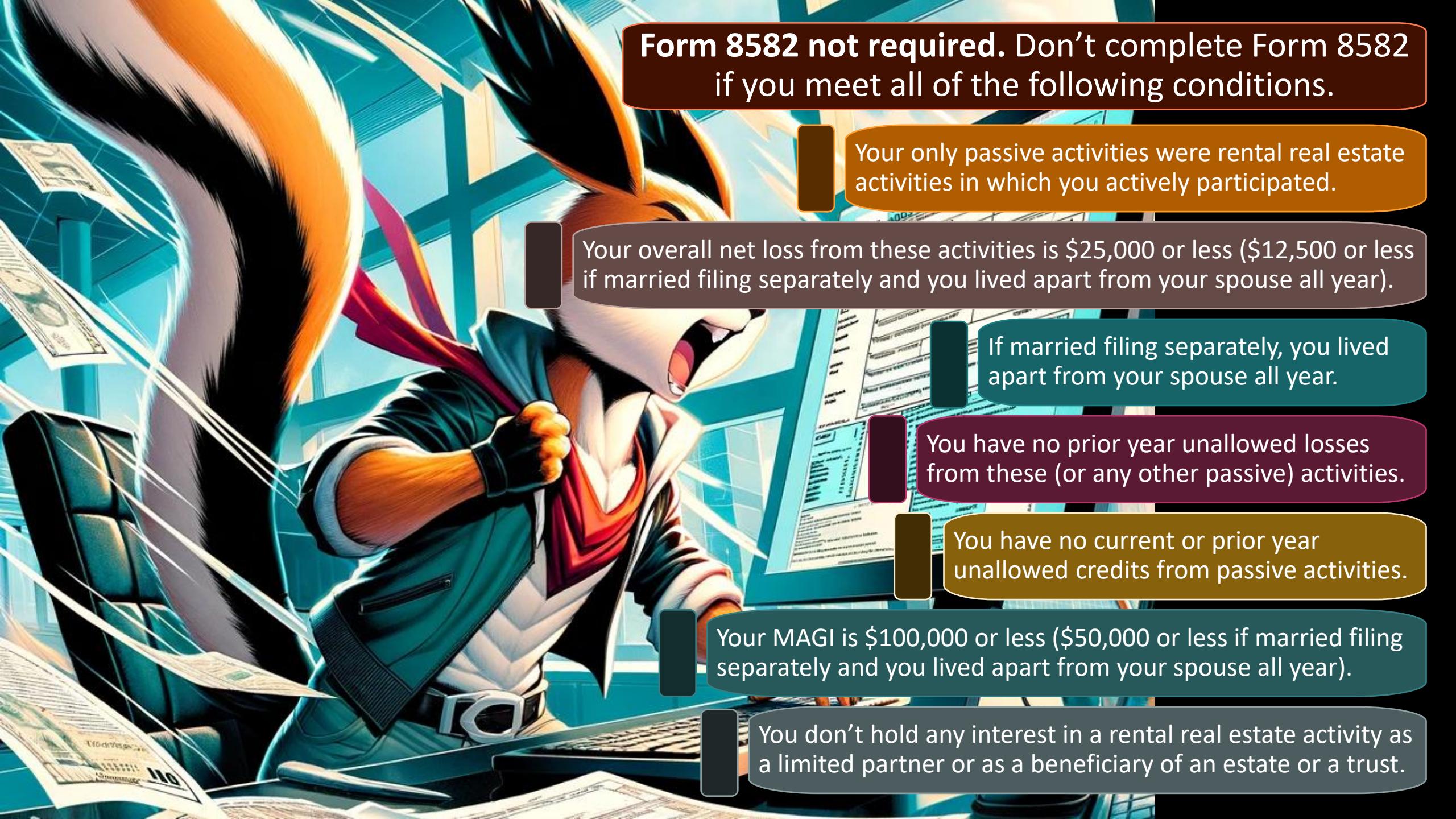
Any overall loss from a publicly traded partnership (see Publicly Traded Partnerships (PTPs) in the Instructions for Form 8582),

The deduction allowed for one-half of self-employment tax,

The deduction allowed for interest paid on student loans, and

The deduction allowed for foreign-derived intangible income and global intangible low-taxed income.





Form 8582 not required. Don't complete Form 8582 if you meet all of the following conditions.

Your only passive activities were rental real estate activities in which you actively participated.

Your overall net loss from these activities is \$25,000 or less (\$12,500 or less if married filing separately and you lived apart from your spouse all year).

If married filing separately, you lived apart from your spouse all year.

You have no prior year unallowed losses from these (or any other passive) activities.

You have no current or prior year unallowed credits from passive activities.

Your MAGI is \$100,000 or less (\$50,000 or less if married filing separately and you lived apart from your spouse all year).

You don't hold any interest in a rental real estate activity as a limited partner or as a beneficiary of an estate or a trust.

If you meet all of the conditions listed above, your rental real estate activities aren't limited by the passive activity rules and you don't have to complete Form 8582.

On lines 23a through 23e of your Schedule E, enter the applicable amounts.





Casualties and Thefts

- As a result of a casualty or theft, you may have a loss related to your rental property. You may be able to deduct the loss on your income tax return.

Casualty.

- This is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual. Such events include a storm, fire, or earthquake.

Theft.

- This is defined as the unlawful taking and removing of your money or property with the intent to deprive you of it.





Gain from casualty or theft.

It is also possible to have a gain from a casualty or theft if you receive money, including insurance, that is more than your adjusted basis in the property. Generally, you must report this gain. However, under certain circumstances, you may defer paying tax by choosing to postpone reporting the gain.

To do this, you must generally buy replacement property within 2 years after the close of the first tax year in which any part of your gain is realized. In certain circumstances, the replacement period can be greater than 2 years; see *Replacement Period* in Pub. 547 for more information.

The cost of the re-placement property must be equal to or more than the net insurance or other payment you received.

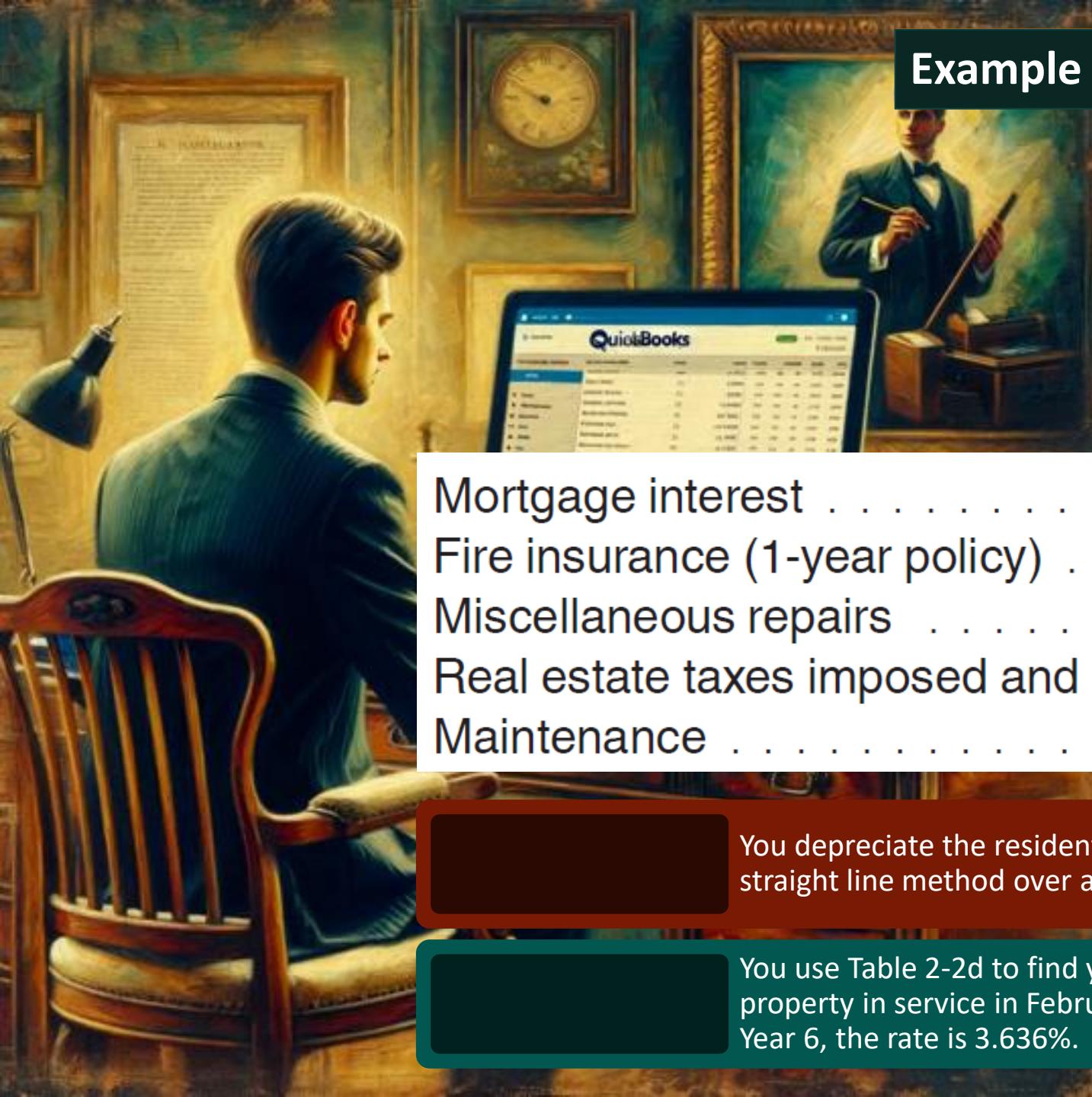
More information.

- For information on business and non-business casualty and theft losses, see Pub. 547.

How to report.

- If you had a casualty or theft that involved property used in your rental activity, figure the net gain or loss in Section B of Form 4684, Casualties and Thefts. Follow the Instructions for Form 4684 for where to carry your net gain or loss.





Example

In February 2018, you bought a rental house for \$135,000 (house \$120,000 and land \$15,000) and immediately began renting it out.

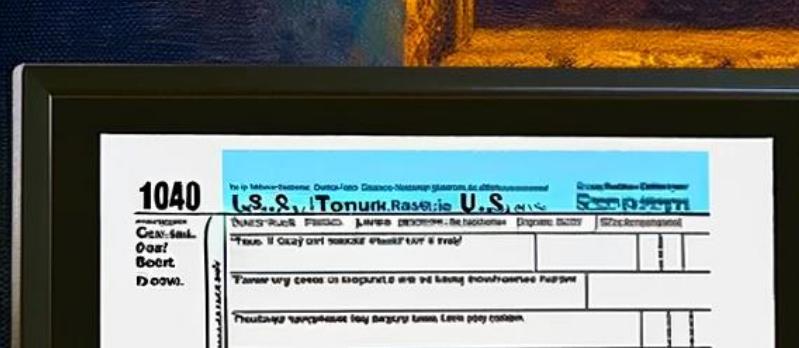
In 2023, you rented it all 12 months for a monthly rental fee of \$1,125. In addition to your rental in-come of \$13,500 ($12 \times \$1,125$), you had the following expenses.

Mortgage interest	\$8,000
Fire insurance (1-year policy)	250
Miscellaneous repairs	400
Real estate taxes imposed and paid	500
Maintenance	200

You depreciate the residential rental property under MACRS GDS. This means using the straight line method over a recovery period of 27.5 years.

You use Table 2-2d to find your depreciation percentage. Because you placed the property in service in February 2018, you continue to use that row of Table 2-2d. For Year 6, the rate is 3.636%.

You figure your net rental income or loss for the house as follows.



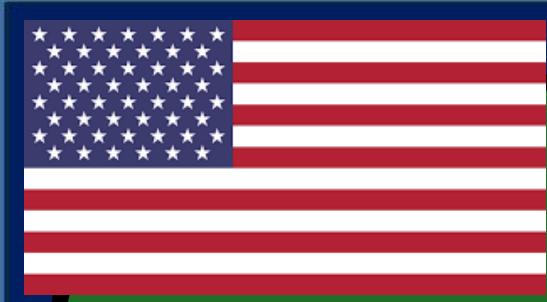
Total rental income received	
(\$1,125 x 12)	\$13,500
Minus: Expenses	
Mortgage interest	\$8,000
Fire insurance	250
Miscellaneous repairs	400
Real estate taxes	500
Maintenance	200
	<hr/>
Total expenses	9,350
	<hr/>
Balance	\$4,150
Minus: Depreciation (\$120,000 x 3.636% (0.03636))	4,363
	<hr/>
Net rental (loss) for house	(\$213)





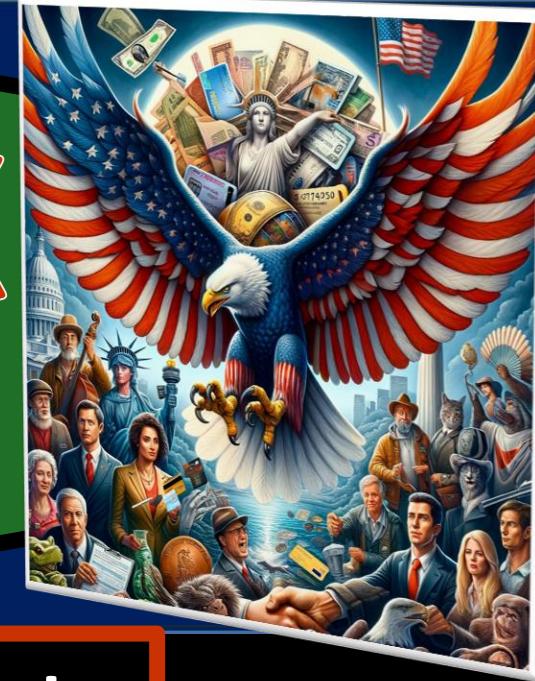
You had a net loss for the year. Because you actively participated in your passive rental real estate activity and your loss was less than \$25,000, you can deduct the loss on your return. You also meet all of the requirements for not having to file Form 8582.

You use Schedule E, Part I, to report your rental income and expenses. You enter your income, expenses, and depreciation for the house in the column for Property A and enter your loss on line 22. Form 4562 isn't required.



Income Tax

2023-2024



Rental Property Special
Situations -
Condominiums,
Cooperatives, & Property
Changed to Rental Use





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= **Adjusted Gross Income (AGI)**

- **Greater of:**

Standard Deduction or

Itemized Deduction

= **Taxable Income**

x **Tax Rates (Tax Tables)**

= **Tax Before Credits & Other Taxes**

- + **Tax Credits & Other Taxes**

= **Total Tax**

- **Tax Payments & Refundable Credits**

= **Tax Refund or Tax Due**

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		

A woman with long brown hair tied back is sitting at a desk in a high-rise office, working on a computer. She is looking at the screen, which displays a webpage. The office has large windows that offer a panoramic view of a city skyline at sunset. The sky is filled with warm orange and yellow hues. The office interior is modern, with a wooden desk and a black office chair. A black silhouette of a hand is overlaid on the right side of the image, pointing towards the text boxes.

Condominiums

A condominium is most often a dwelling unit in a multi-unit building, but can also take other forms, such as a town-house or garden apartment.

If you own a condominium, you also own a share of the common elements, such as land, lobbies, elevators, and service areas. You and the other condominium owners may pay dues or assessments to a special corporation that is organized to take care of the common elements.

Special rules apply if you rent your condominium to others. You can deduct as rental expenses all the expenses discussed in chapters 1 and 2. In addition, you can deduct any dues or assessments paid for maintenance of the common elements.

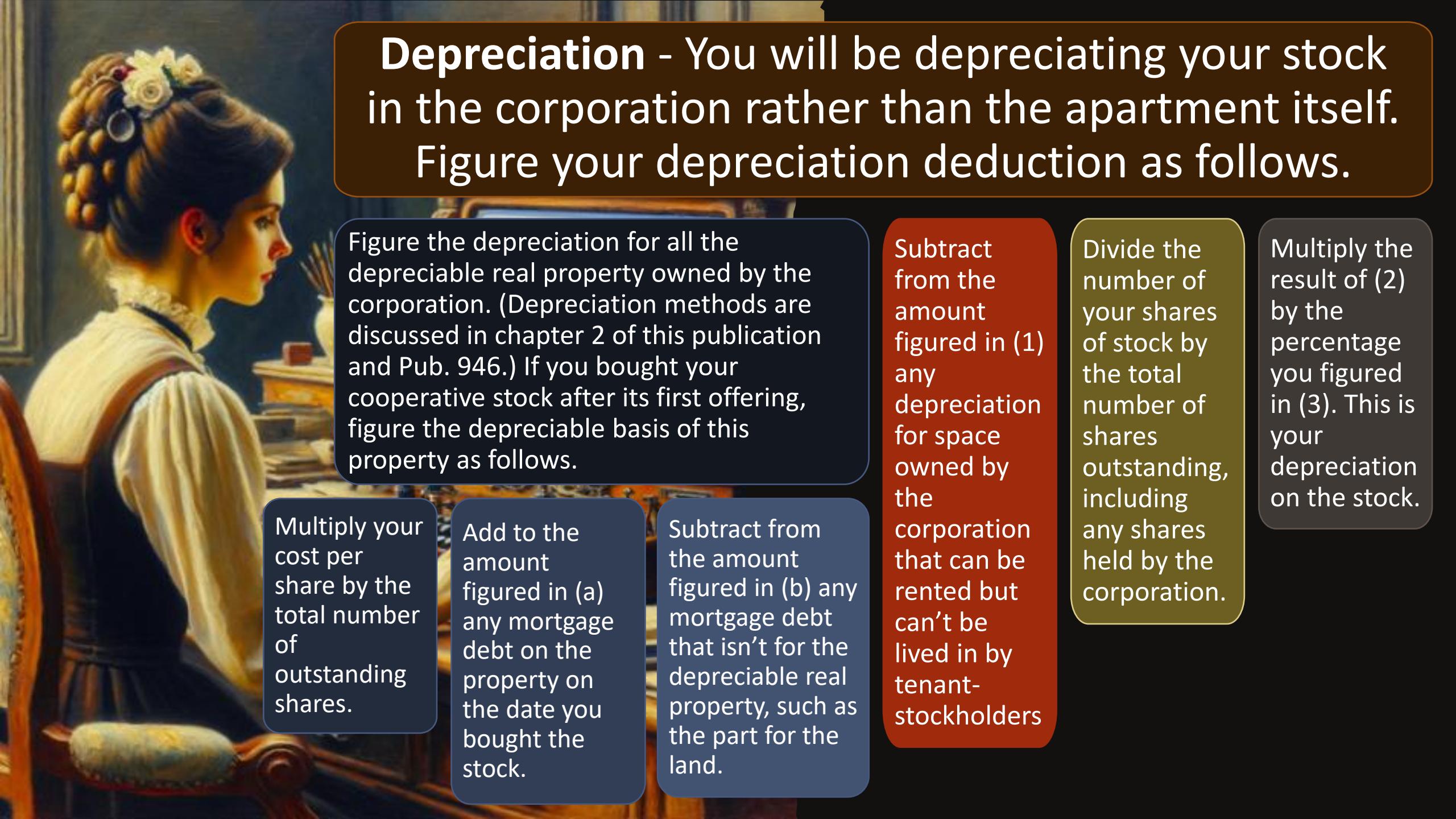
You can't deduct special assessments you pay to a condominium management corporation for improvements. However, you may be able to recover your share of the cost of any improvement by taking depreciation.

Cooperatives

If you live in a cooperative, you don't own your apartment. Instead, a corporation owns the apartments and you are a tenant-stockholder in the cooperative housing corporation. If you rent your apartment to others, you can usually deduct, as a rental expense, all the maintenance fees you pay to the cooperative housing corporation.

In addition to the maintenance fees paid to the cooperative housing corporation, you can deduct your direct payments for repairs, upkeep, and other rental expenses, including interest paid on a loan used to buy your stock in the corporation.





Depreciation - You will be depreciating your stock in the corporation rather than the apartment itself.

Figure your depreciation deduction as follows.

Figure the depreciation for all the depreciable real property owned by the corporation. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.

Multiply your cost per share by the total number of outstanding shares.

Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.

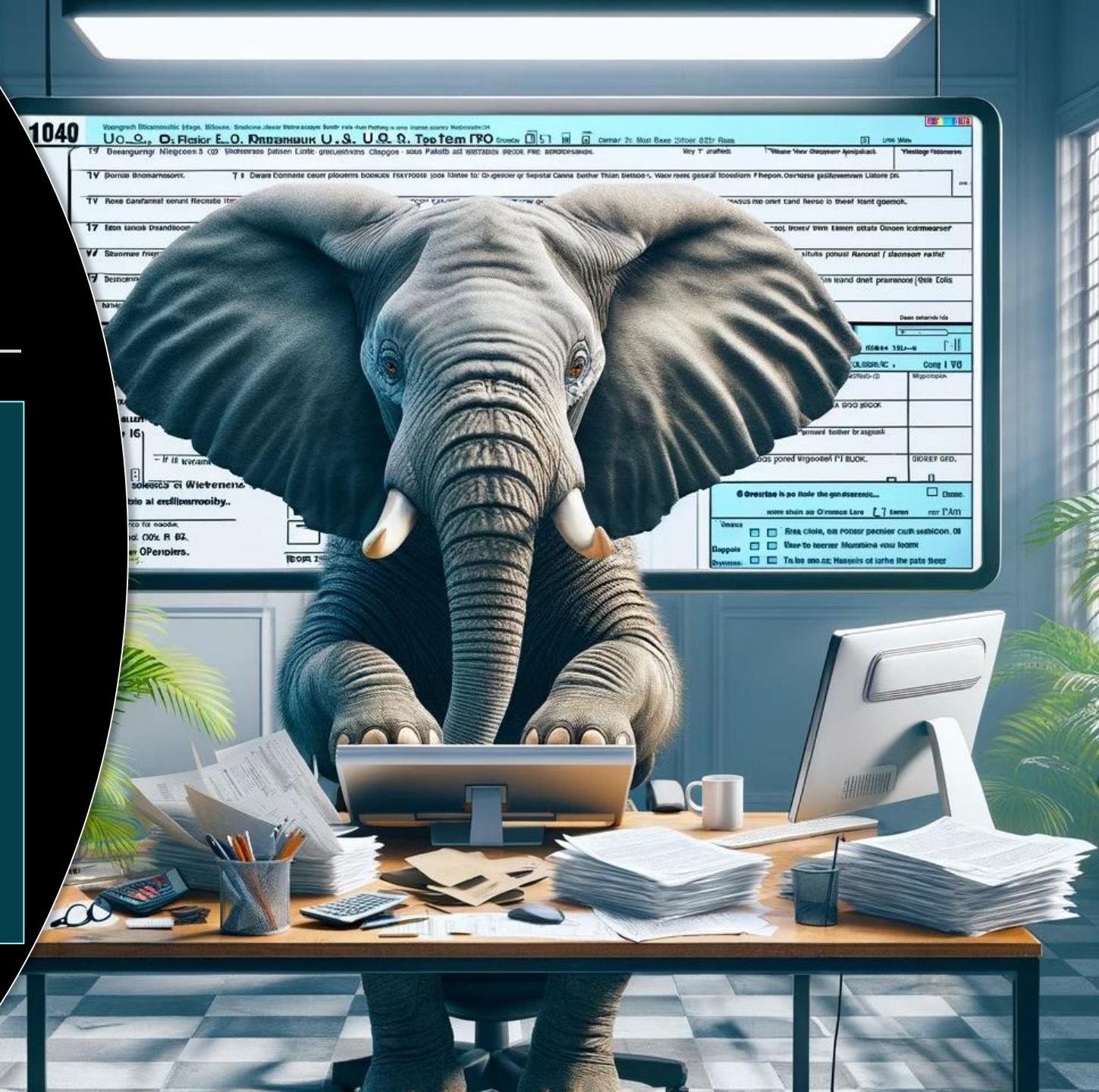
Subtract from the amount figured in (b) any mortgage debt that isn't for the depreciable real property, such as the part for the land.

Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but can't be lived in by tenant-stockholders

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year can't be more than the part of your adjusted basis (defined in chapter 2) in the stock of the corporation that is allocable to your rental property.





Payments added to capital account.

Payments earmarked for a capital asset or improvement, or otherwise charged to the corporation's capital account, are added to the basis of your stock in the corporation.

For example, you can't deduct a payment used to pave a community parking lot, install a new roof, or pay the principal of the corporation's mortgage.

Treat as a capital cost the amount you were assessed for capital items.

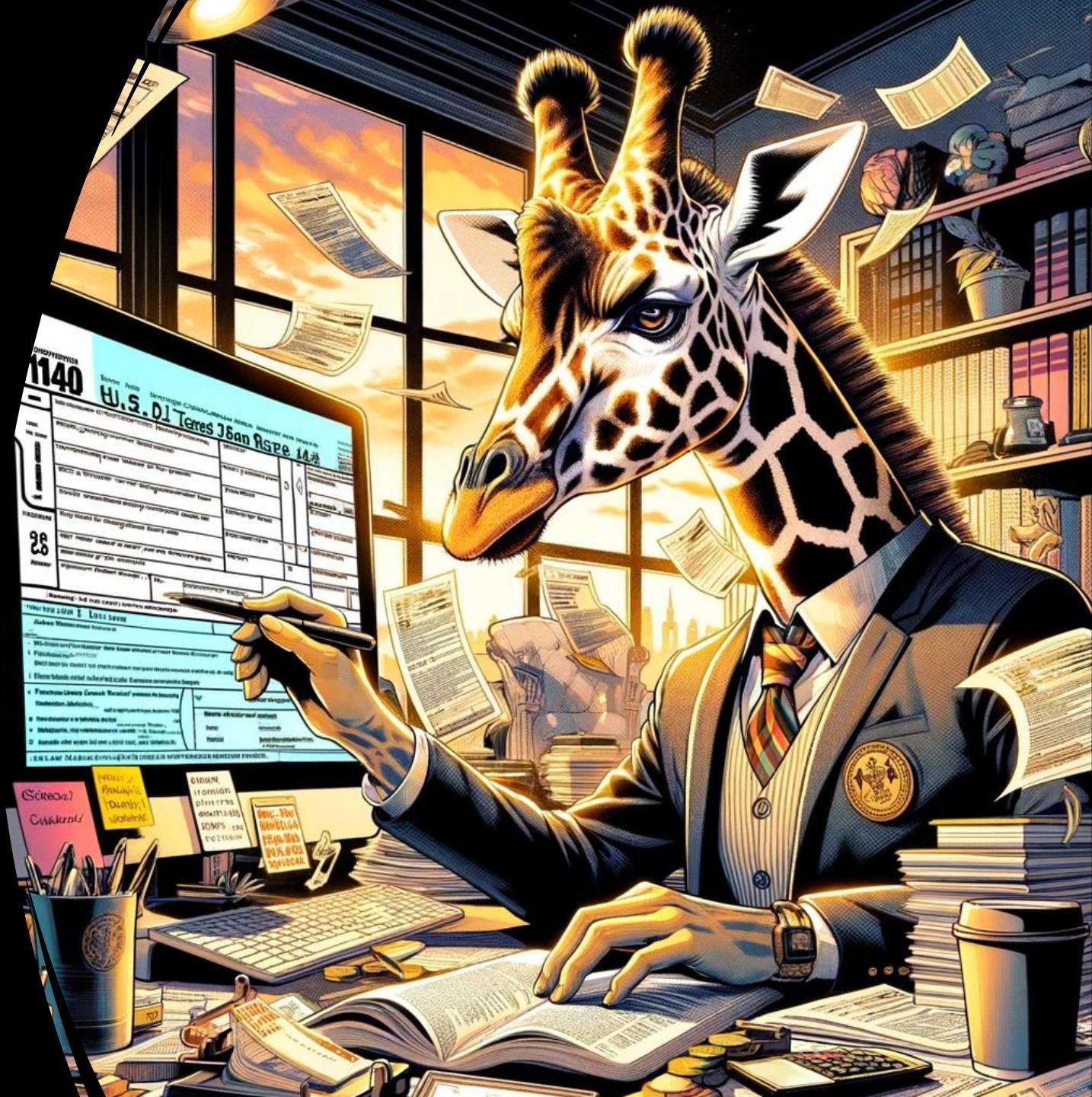
This can't be more than the amount by which your payments to the corporation exceeded your share of the corporation's mortgage interest and real estate taxes.

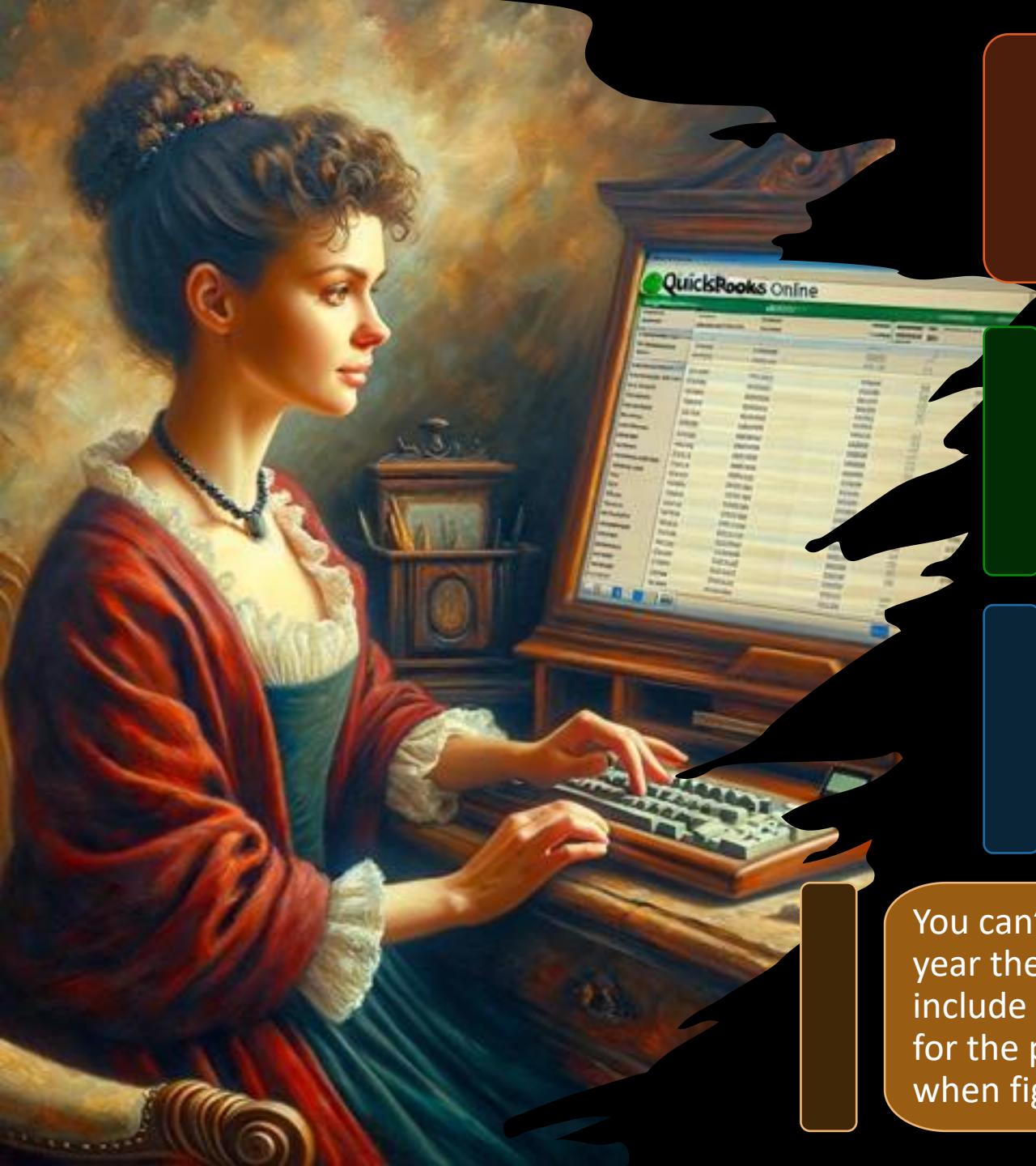
Your share of interest and taxes is the amount the corporation elected to allocate to you, if it reasonably reflects those expenses for your apartment. Otherwise, figure your share in the following manner.

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the corporation's deductible interest by the number you figured in (1). This is your share of the interest.

Multiply the corporation's deductible taxes by the number you figured in (1). This is your share of the taxes.





Property Changed to Rental Use

If you change your home or other property (or a part of it) to rental use at any time other than the beginning of your tax year, you must divide yearly expenses, such as taxes and insurance, between rental use and personal use.

You can deduct as rental expenses only the part of the expense that is for the part of the year the property was used or held for rental purposes.

You can't deduct depreciation or insurance for the part of the year the property was held for personal use. However, you can include the home mortgage interest and real estate tax expenses for the part of the year the property was held for personal use when figuring the amount you can deduct on Schedule A.

Example.

Your tax year is the calendar year. You moved from your home in May and started renting it out on June 1. You can deduct as rental expenses seven-twelfths of your yearly expenses, such as taxes and insurance.

Starting with June, you can deduct as rental expenses the amounts you pay for items generally billed monthly, such as utilities.

When figuring depreciation, treat the property as placed in service on June 1.



A woman with long dark hair and glasses is sitting at a desk, working on a computer. She is looking out of a window at a city skyline during a vibrant sunset. The scene is lit with warm, golden light.

Basis of Property Changed to Rental Use

- When you change property you held for personal use to rental use (for example, you rent your former home), the basis for depreciation will be the lesser of the FMV or adjusted basis on the date of conversion.

FMV.

This is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts. Sales of similar property, on or about the same date, may be helpful in figuring the FMV of the property.





Figuring the basis.

The basis for depreciation is the lesser of:

The FMV of the property on the date you changed it to rental use; or

Your adjusted basis on the date of the change—that is, your original cost or other basis of the property, plus the cost of permanent additions or improvements since you acquired it, minus deductions for any casualty or theft losses claimed on earlier years' income tax returns and other decreases to basis. For other increases and decreases to basis, see *Adjusted Basis* in chapter 2.

Example.

You originally built a house for \$140,000 on a lot that cost you \$14,000, which you used as your home for many years. Before changing the property to rental use this year, you added \$28,000 of permanent improvements to the house and claimed a \$3,500 casualty loss deduction for damage to the house.

Part of the improvements qualified for a \$500 residential energy credit, which you claimed on a prior year tax return. Because land isn't depreciable, you can only include the cost of the house when figuring the basis for depreciation.

The adjusted basis of the house at the time of the change in its use was \$164,000 ($\$140,000 + \$28,000 - \$3,500 - \500).

On the date of the change in use, your property had an FMV of \$168,000, of which \$21,000 was for the land and \$147,000 was for the house.

The basis for depreciation on the house is the FMV on the date of the change (\$147,000) because it is less than your adjusted basis (\$164,000).





Cooperatives

If you change your cooperative apartment to rental use, figure your allowable depreciation as explained earlier. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

The FMV of the property on the date you change your apartment to rental use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.

The corporation's adjusted basis in the property on that date. Don't subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) under *Depreciation*, earlier.

The FMV of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.





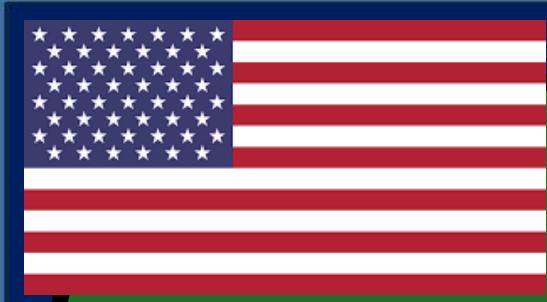
- To figure the deduction, use the depreciation system in effect when you convert your residence to rental use. Generally, that will be MACRS for any conversion after 1986. Treat the property as placed in service on the conversion date.

Figuring the Depreciation Deduction

Example.

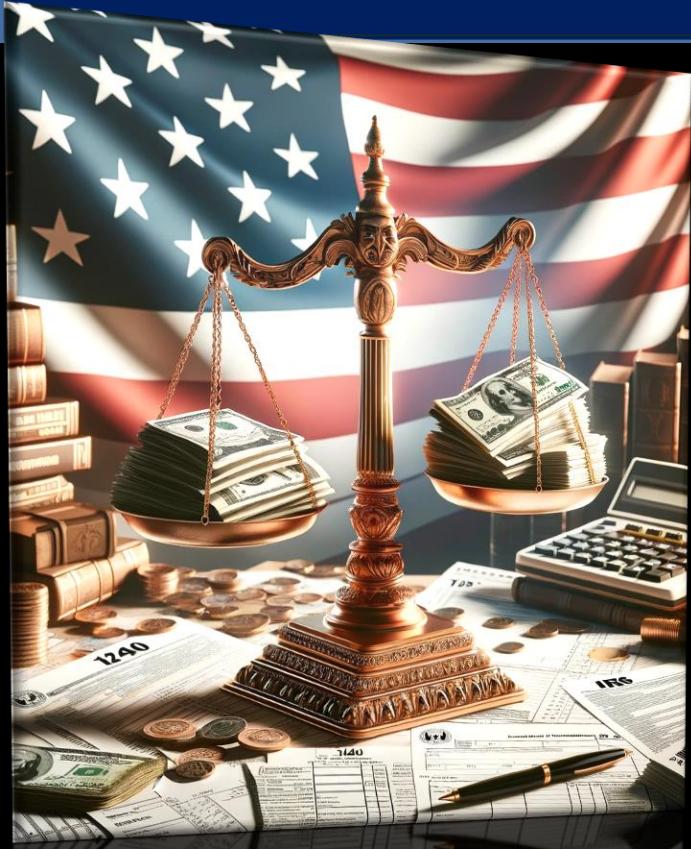
- Your converted residence (see the previous example under *Figuring the basis*, earlier) was available for rent on August 1.
- Using Table 2-2d (see chapter 2), the percentage for Year 1 beginning in August is 1.364% and the depreciation deduction for Year 1 is \$2,005 ($\$147,000 \times 1.364\% (0.01364)$).



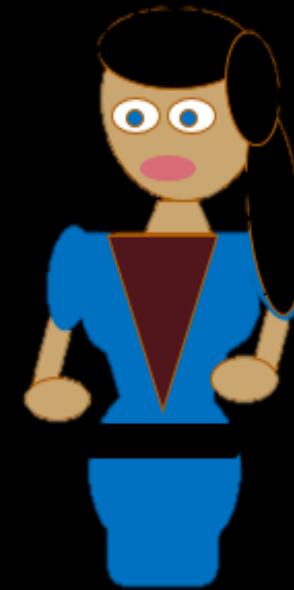


Income Tax

2023-2024



Rental Property - Special Situations – Renting Part of Property, Not Rented for Profit, & Example of Change to Rental Use





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= Adjusted Gross Income (AGI)

- Greater of:

Standard Deduction or

Itemized Deduction

= Taxable Income

x Tax Rates (Tax Tables)

= Tax Before Credits & Other Taxes

- + Tax Credits & Other Taxes

= Total Tax

- Tax Payments & Refundable Credits

= Tax Refund or Tax Due

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence 3 Vacation/Short-Term Rental 5 Land 7 Self-Rental
2 Multi-Family Residence 4 Commercial 6 Royalties 8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

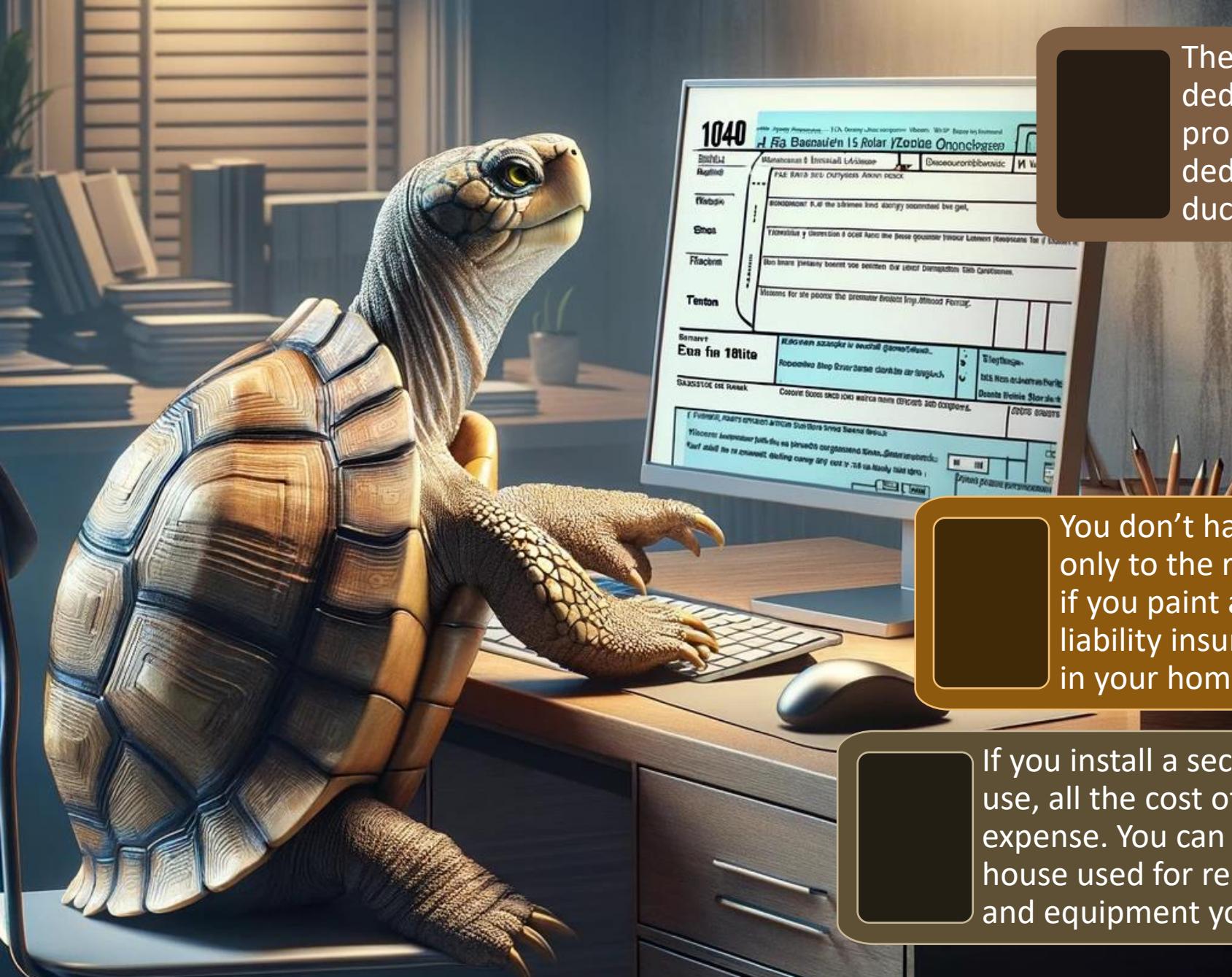
Renting Part of Property

If you rent part of your property, you must divide certain expenses between the part of the property used for rental purposes and the part of the property used for personal purposes, as though you actually had two separate pieces of property.

You can deduct the expenses related to the part of the property used for rental purposes, such as home mortgage interest and real estate taxes, as rental expenses on Schedule E (Form 1040).

You can also deduct as rental expenses a portion of other expenses that are normally nondeductible personal expenses, such as expenses for electricity or painting the outside of the house.





There is no change in the types of expenses deductible for the personal-use part of your property. Generally, these expenses may be deducted only if you itemize your deductions on Schedule A (Form 1040).

You can't deduct any part of the cost of the first phone line even if your tenants have unlimited use of it.

You don't have to divide the expenses that belong only to the rental part of your property. For example, if you paint a room that you rent or pay premiums for liability insurance in connection with renting a room in your home, your entire cost is a rental expense.

If you install a second phone line strictly for your tenant's use, all the cost of the second line is deductible as a rental expense. You can deduct depreciation on the part of the house used for rental purposes as well as on the furniture and equipment you use for rental purposes.

How to divide expenses.

If an expense is for both rental use and personal use, such as mortgage interest or heat for the entire house, you must divide the expense between rental use and personal use. You can use any reasonable method for dividing the expense.

It may be reasonable to divide the cost of some items (for example, water) based on the number of people using them. The two most common methods for dividing an expense are (1) the number of rooms in your home, and (2) the square footage of your home.





Example.

You rent a room in your house. The room is 12×15 feet, or 180 square feet. Your entire house has 1,800 square feet of floor space. You can deduct as a rental expense 10% of any expense that must be divided between rental use and personal use.

If your heating bill for the year for the entire house was \$600, \$60 ($\$600 \times 10\% (0.10)$) is a rental expense. The balance, \$540, is a personal expense that you can't deduct.

Duplex.

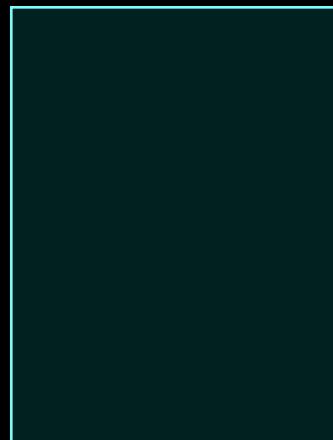
- A common situation is the duplex where you live in one unit and rent out the other. Certain expenses apply to the entire property, such as mortgage interest and real estate taxes, and must be split to determine rental and personal expenses.





Example.

You own a duplex and live in one half, renting out the other half. Both units are approximately the same size. Last year, you paid a total of \$10,000 mortgage interest and \$2,000 real estate taxes for the entire property.



You can deduct \$5,000 mortgage interest and \$1,000 real estate taxes on Schedule E. If you itemize your de-ductions, include the other \$5,000 mortgage interest and \$1,000 real estate taxes when figuring the amount you can deduct on Schedule A.

Not Rented for Profit

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.

You can't deduct a loss or carry forward to the next year any rental expenses that are more than your rental income for the year.





Where to report.

- Report your not-for-profit rental income on Schedule 1 (Form 1040), line 8j. If you itemize your de-ductions, include your mortgage interest (if you use the property as your main home or second home), real estate taxes, and casualty losses from your not-for-profit rental activity when figuring the amount you can deduct on Schedule A.

Presumption of profit.

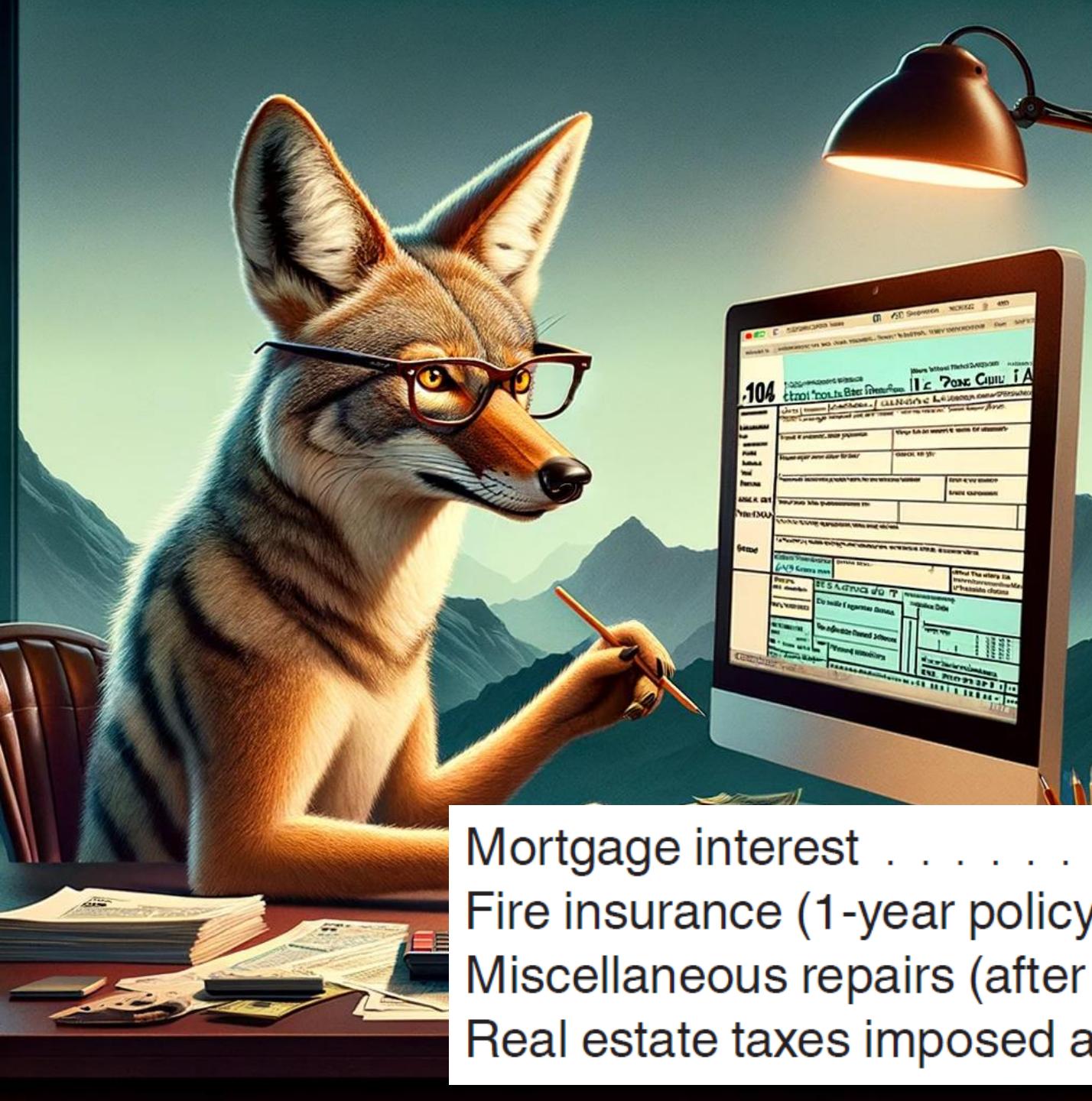
- If your rental income is more than your rental expenses for at least 3 years out of a period of 5 consecutive years, you are presumed to be renting your property to make a profit.

Postponing decision.

If you are starting your rental activity and don't have 3 years showing a profit, you can elect to have the presumption made after you have the 5 years of experience required by the test. You may choose to postpone the decision of whether the rental is for profit by filing Form 5213.

You must file Form 5213 within 3 years after the due date of your return (determined without extensions) for the year in which you first carried on the activity or, if earlier, within 60 days after receiving written notice from the IRS proposing to disallow deductions attributable to the activity.





Example—Property Changed to Rental Use

In January, you bought a condominium apartment to live in. Instead of selling the house you had been living in, you decided to change it to rental property. You selected a tenant and started renting the house on February 1.

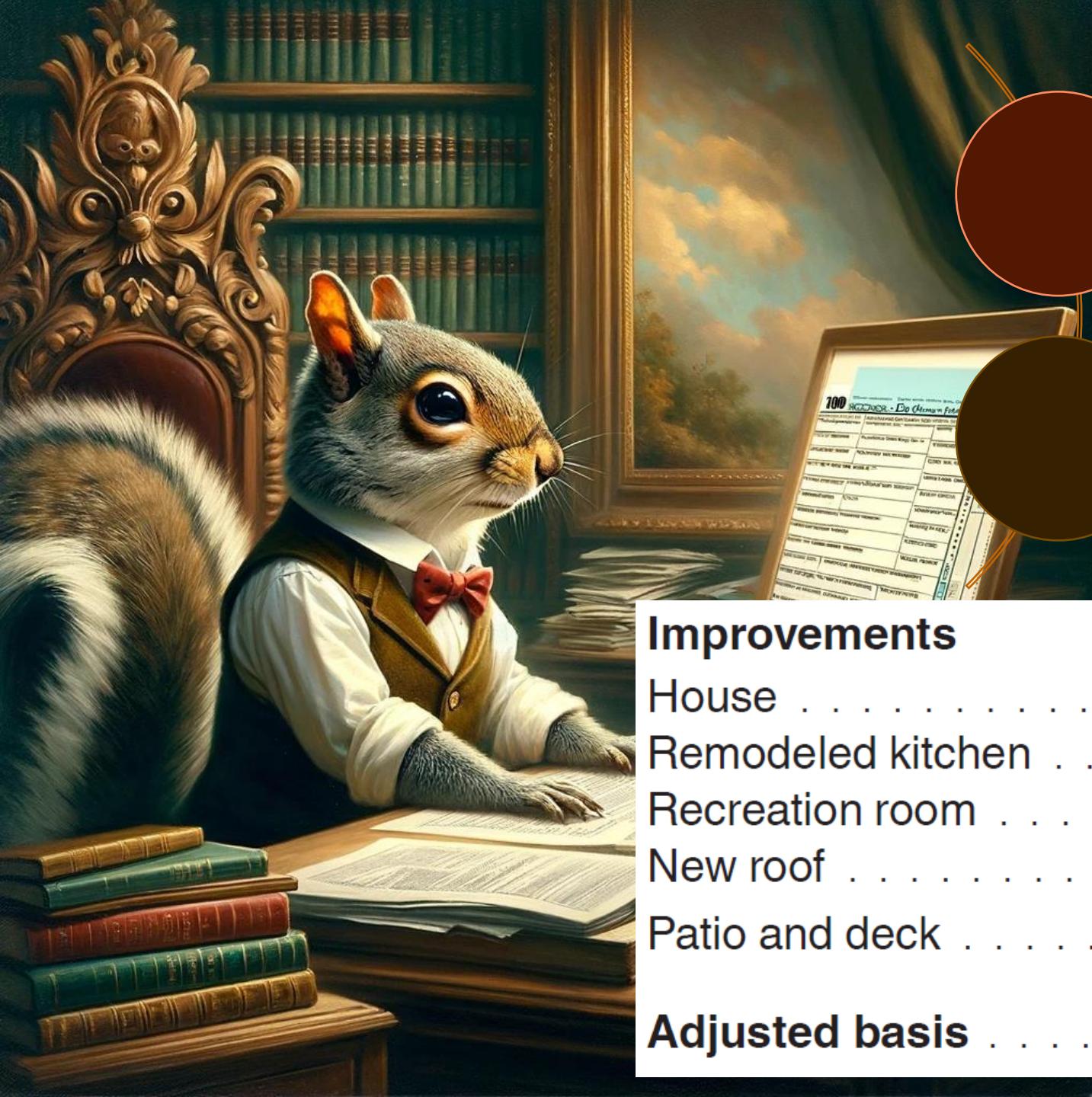
You charge \$750 a month for rent and collect it yourself. You also received a \$750 security deposit from your tenant. Because you plan to return it to your tenant at the end of the lease, you don't include it in your income. Your rental expenses for the year are as follows.

Mortgage interest	.....	\$1,800
Fire insurance (1-year policy)	.....	100
Miscellaneous repairs (after renting)	.....	297
Real estate taxes imposed and paid	.....	1,200

You must divide the real estate taxes, mortgage interest, and fire insurance between the personal use of the property and the rental use of the property. You can deduct eleven-twelfths of these expenses as rental expenses.

You can include the balance of the real estate taxes and mortgage interest when figuring the amount you can deduct on Schedule A if you itemize. You can't deduct the balance of the fire insurance because it is a personal expense.





You bought this house in 2008 for \$35,000. Your property tax was based on assessed values of \$10,000 for the land and \$25,000 for the house.

Before changing it to rental property, you added several improvements to the house. You figure your adjusted basis as follows.

Improvements	Cost
House	\$25,000
Remodeled kitchen	4,200
Recreation room	5,800
New roof	1,600
Patio and deck	2,400
Adjusted basis	\$39,000

On February 1, when you changed your house to rental property, the property had an FMV of \$152,000. Of this amount, \$35,000 was for the land and \$117,000 was for the house.

Because your adjusted basis is less than the FMV on the date of the change, you use \$39,000 as your basis for depreciation.

As specified for residential rental property, you must use the straight line method of depreciation over the GDS or ADS recovery period. You choose the GDS recovery period of 27.5 years.

You use Table 2-2d to find your depreciation percentage. Because you placed the property in service in February, the percentage is 3.182%.

On April 1, you bought a new dishwasher for the rental property at a cost of \$425. The dishwasher is personal property used in a rental real estate activity, which has a 5-year recovery period. You use Table 2-2a to find the depreciation percentage for Year 1 under "Half-year convention" (20%) to figure your depreciation deduction.

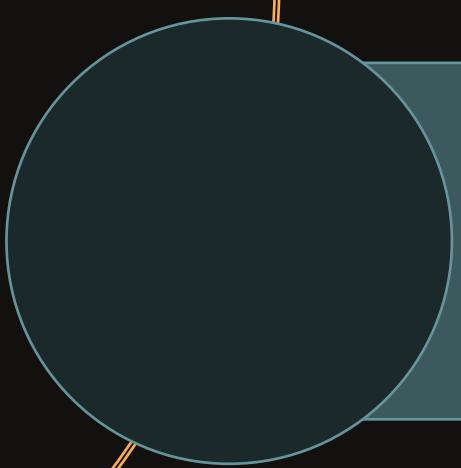
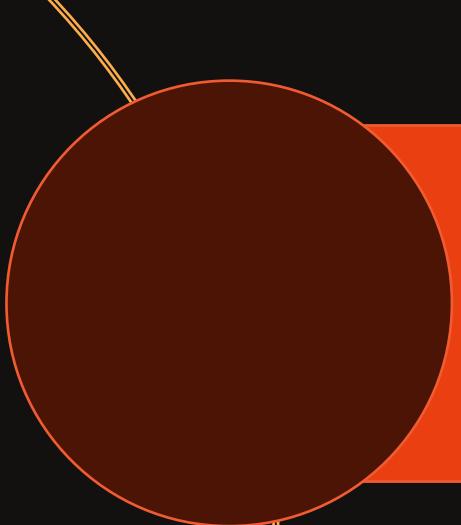
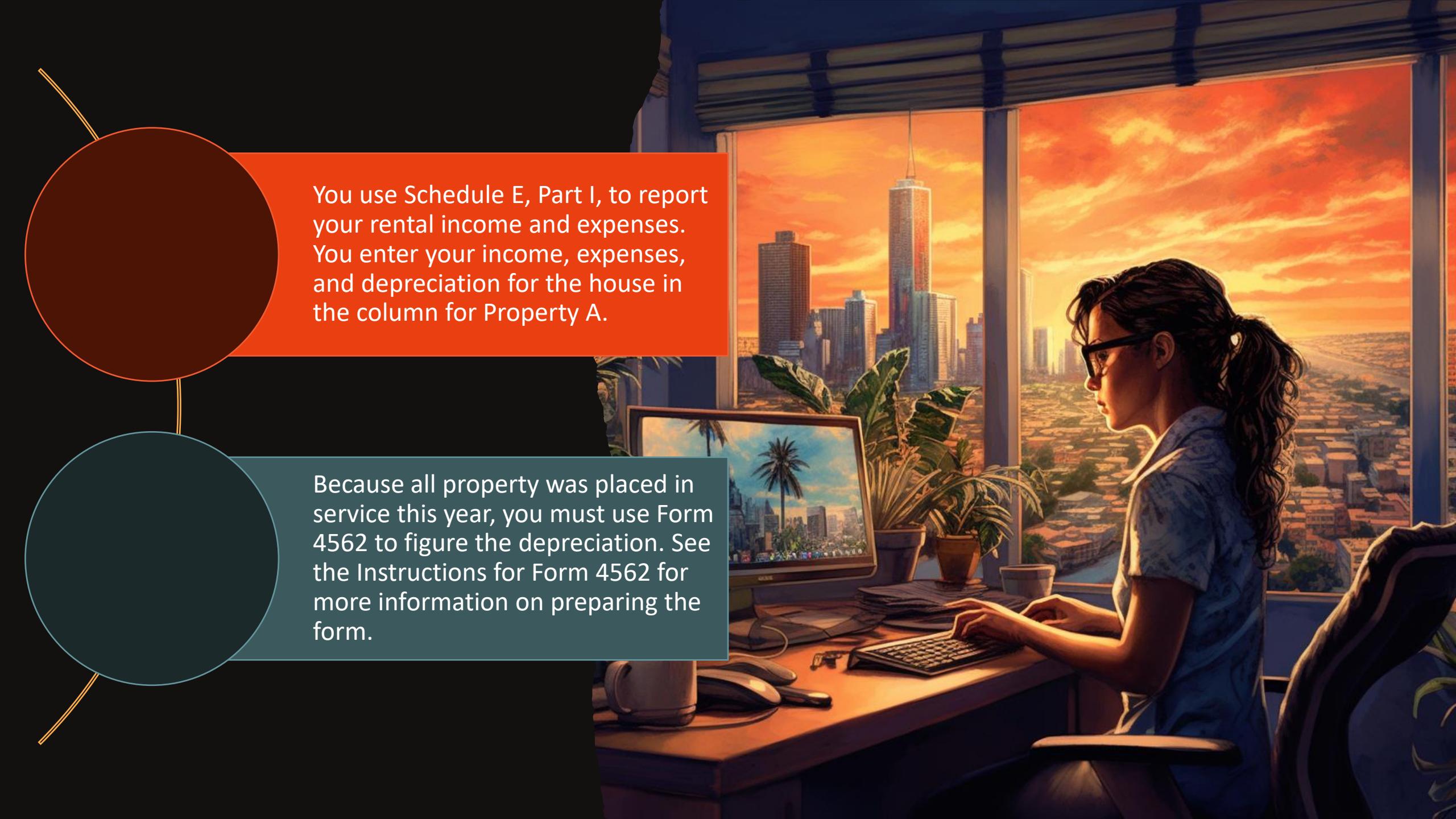




On May 1, you paid \$4,000 to have a furnace installed in the house. The furnace is residential rental property. Because you placed the property in service in May, the depreciation percentage from Table 2-2d is 2.273%.

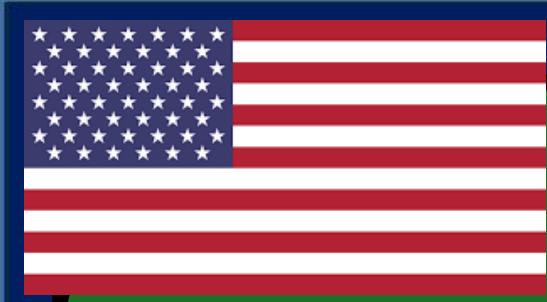
You figured your net rental income or loss for the house as follows.

Total rental income received (\$750 × 11)	\$8,250
Minus: Expenses	
Mortgage interest (\$1,800 × 11/12)	\$1,650
Fire insurance (\$100 × 11/12)	92
Miscellaneous repairs	297
Real estate taxes (\$1,200 × 11/12)	1,100
Total expenses	<u>3,139</u>
Balance	\$5,111
Minus: Depreciation	
House (\$39,000 × 0.03182)	\$1,241
Dishwasher (\$425 × 0.20)	85
Furnace (\$4,000 × 0.02273)	91
Total depreciation	<u>1,417</u>
Net rental income for house	\$3,694



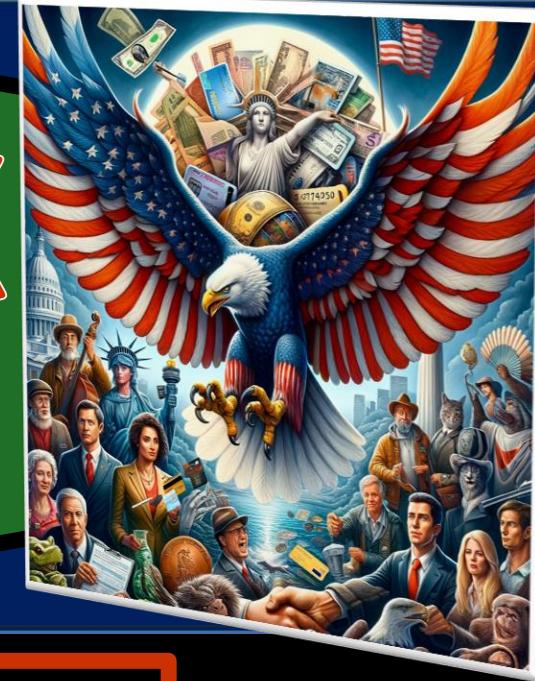
You use Schedule E, Part I, to report your rental income and expenses. You enter your income, expenses, and depreciation for the house in the column for Property A.

Because all property was placed in service this year, you must use Form 4562 to figure the depreciation. See the Instructions for Form 4562 for more information on preparing the form.

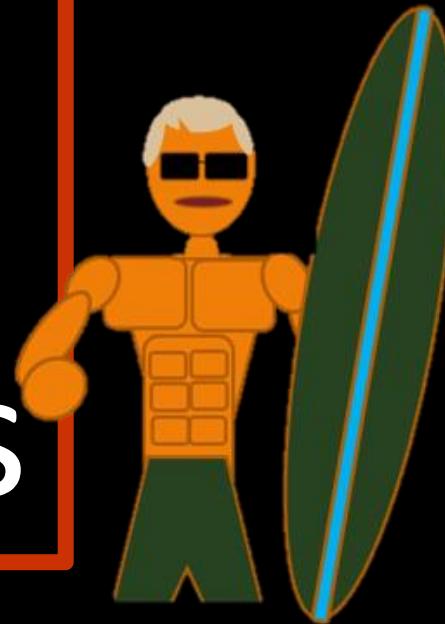


Income Tax

2023-2024



Rental Property -
Personal Use -
Dividing Expenses





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= **Adjusted Gross Income (AGI)**

- **Greater of:**

Standard Deduction or

Itemized Deduction

= **Taxable Income**

x **Tax Rates (Tax Tables)**

= **Tax Before Credits & Other Taxes**

- + **Tax Credits & Other Taxes**

= **Total Tax**

- **Tax Payments & Refundable Credits**

= **Tax Refund or Tax Due**

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A		A		<input type="checkbox"/>
B		B		<input type="checkbox"/>
C		C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		



Personal Use of Dwelling Unit (Including Vacation Home)

If you have any personal use of a dwelling unit (including a vacation home) that you rent, you must divide your expenses between rental use and personal use.

In general, your rental expenses will be no more than your total expenses multiplied by a fraction, the denominator of which is the total number of days the dwelling unit is used and the numerator of which is the total number of days actually rented at a fair rental price.

Only your rental expenses may be deducted on Schedule E (Form 1040).

Some of your personal expenses may be deductible on Schedule A (Form 1040) if you itemize your deductions.

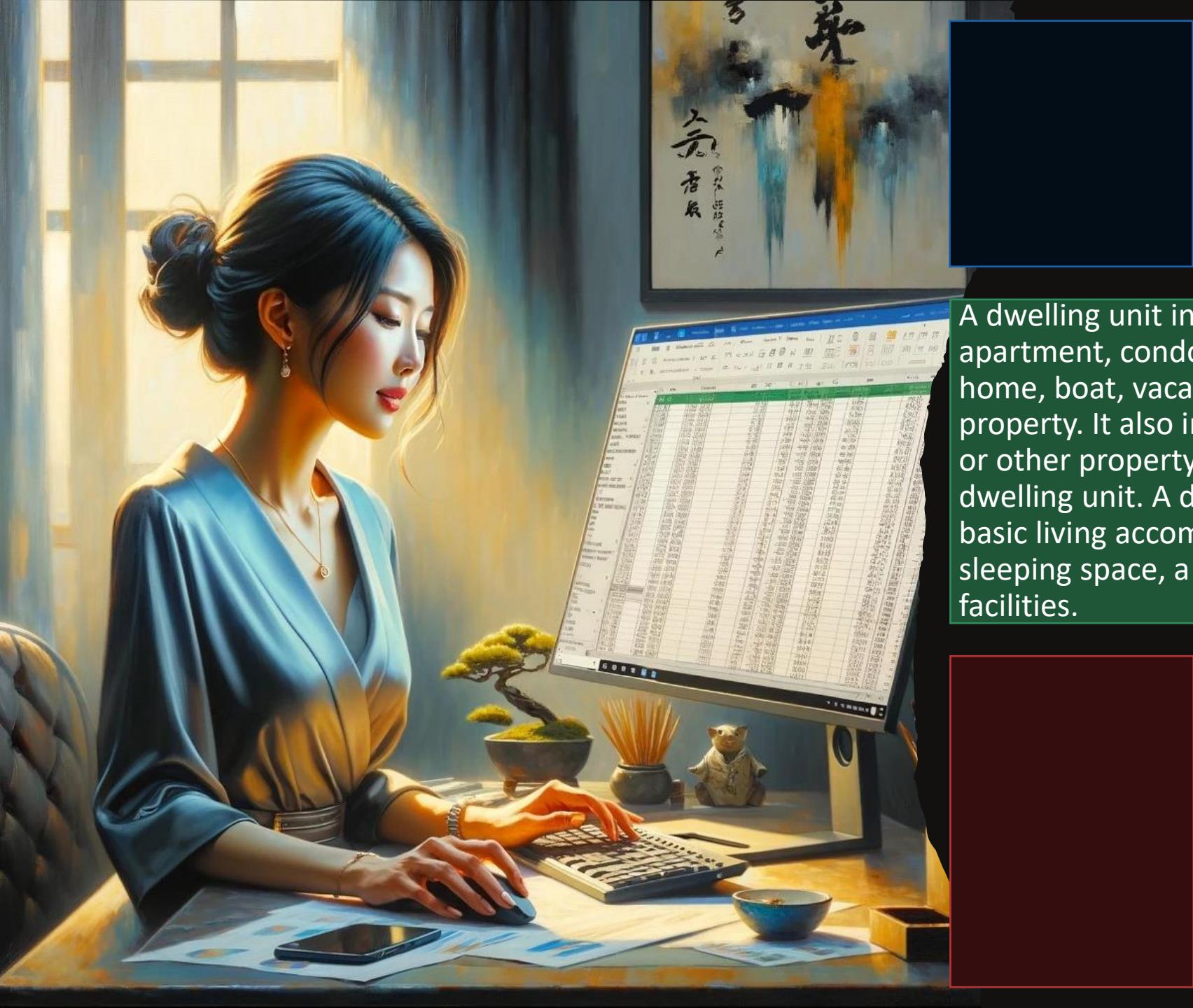
You must also determine if the dwelling unit is considered a home. The amount of rental expenses that you can de-duct may be limited if the dwelling unit is considered a home.

Whether a dwelling unit is considered a home depends on how many days during the year are considered to be days of personal use.

There is a special rule if you used the dwelling unit as a home and you rented it for less than 15 days during the year.



Dwelling unit.



A dwelling unit includes a house, apartment, condominium, mobile home, boat, vacation home, or similar property. It also includes all structures or other property belonging to the dwelling unit. A dwelling unit has basic living accommodations, such as sleeping space, a toilet, and cooking facilities.

A dwelling unit doesn't include property (or part of the property) used solely as a hotel, motel, inn, or similar establishment. Property is used solely as a hotel, motel, inn, or similar establishment if it is regularly available for occupancy by paying customers and isn't used by an owner as a home during the year.

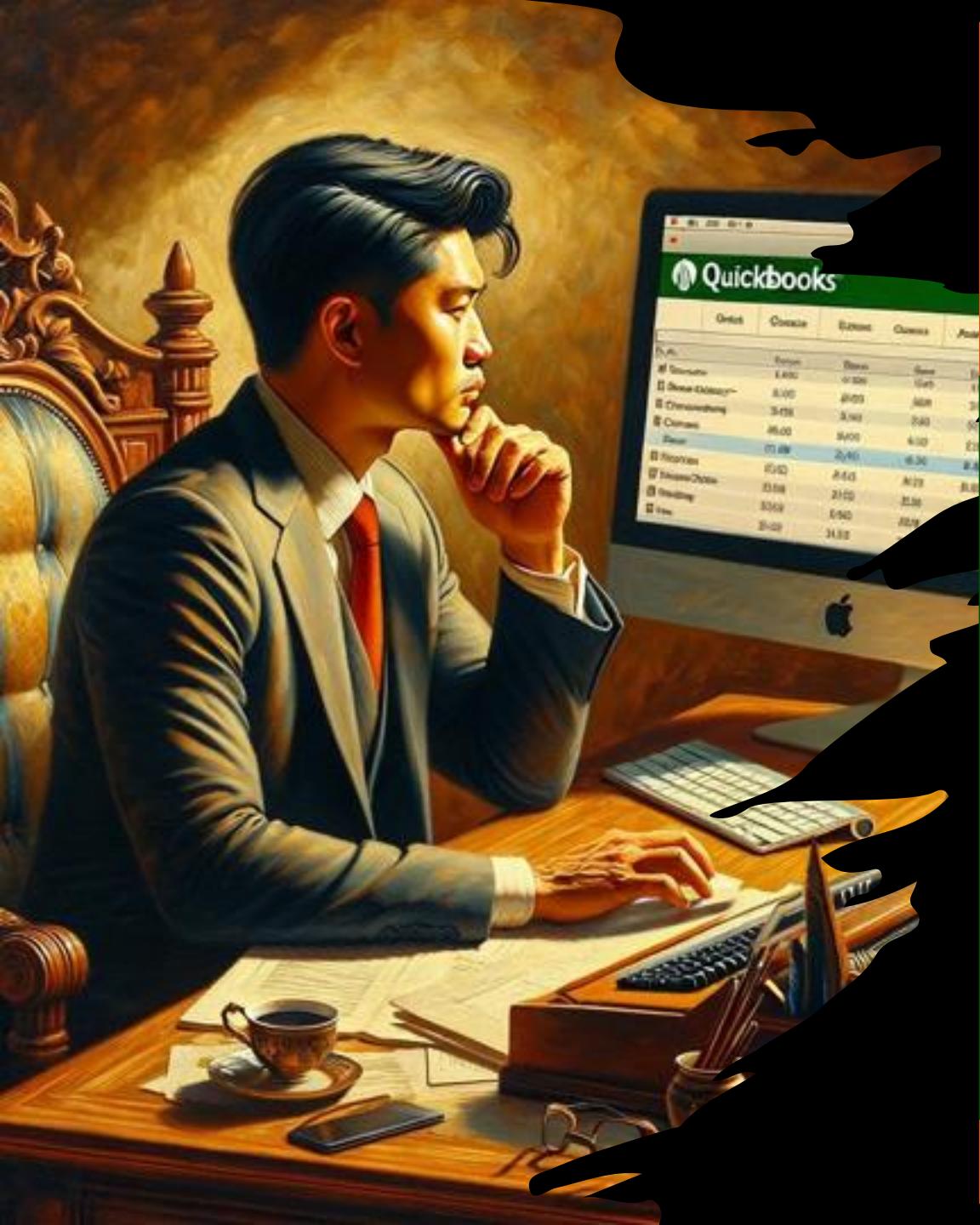
Example.

You rent a room in your home that is always available for short-term occupancy by paying customers.

You don't use the room yourself and you allow only paying customers to use the room.

This room is used solely as a hotel, motel, inn, or similar establishment and isn't a dwelling unit.





Dividing Expenses

If you use a dwelling unit for both rental and personal purposes, divide your expenses between the rental use and the personal use based on the number of days used for each purpose. When dividing your expenses, follow these rules.

Any day that the unit is rented at a fair rental price is a day of rental use even if you used the unit for personal purposes that day. (This rule doesn't apply when determining whether you used the unit as a home.)

Any day that the unit is available for rent but not actually rented isn't a day of rental use.

Fair rental price.

A fair rental price for your property is generally the amount of rent that a person who isn't related to you would be willing to pay.

The rent you charge isn't a fair rental price if it is substantially less than the rents charged for other properties that are similar to your property in your area.

Ask yourself the following questions when comparing another property with yours.

Is it used for the same purpose?

Is it in approximately the same condition?

Is it in a similar location?

Is it approximately the same size?

Does it have similar furnishings?

If any of the answers are no, the properties probably aren't similar.





Example.

Your beach cottage was available for rent from June 1 through August 31 (92 days).

Except for the first week in August (7 days), when you were unable to find a renter, you rented the cottage at a fair rental price during that time.

The person who rented the cottage for July allowed you to use it over the weekend (2 days) without any reduction in or refund of rent.

Your family also used the cottage during the last 2 weeks of May (14 days). The cottage wasn't used at all before May 17 or after August 31.

You figure the part of the cottage expenses to treat as rental expenses as follows.

The cottage was used for rental a total of 85 days ($92 - 7$). The days it was available for rent but not rented (7 days) aren't days of rental use. The July weekend (2 days) you used it is rental use because you received a fair rental price for the weekend.

You used the cottage for personal purposes for 14 days (the last 2 weeks in May).

The total use of the cottage was 99 days (14 days personal use + 85 days rental use).

Your rental expenses are $85/99$ (86%) of the cottage expenses.



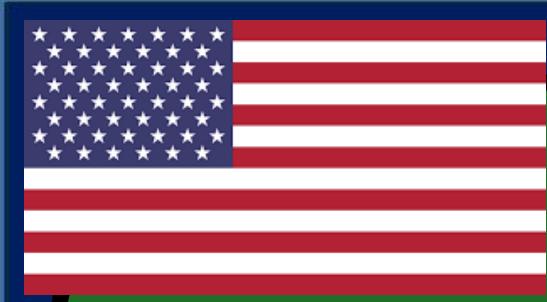


Note.

When determining whether you used the cottage as a home, the July weekend (2 days) you used it is considered personal use even though you received a fair rental price for the weekend.

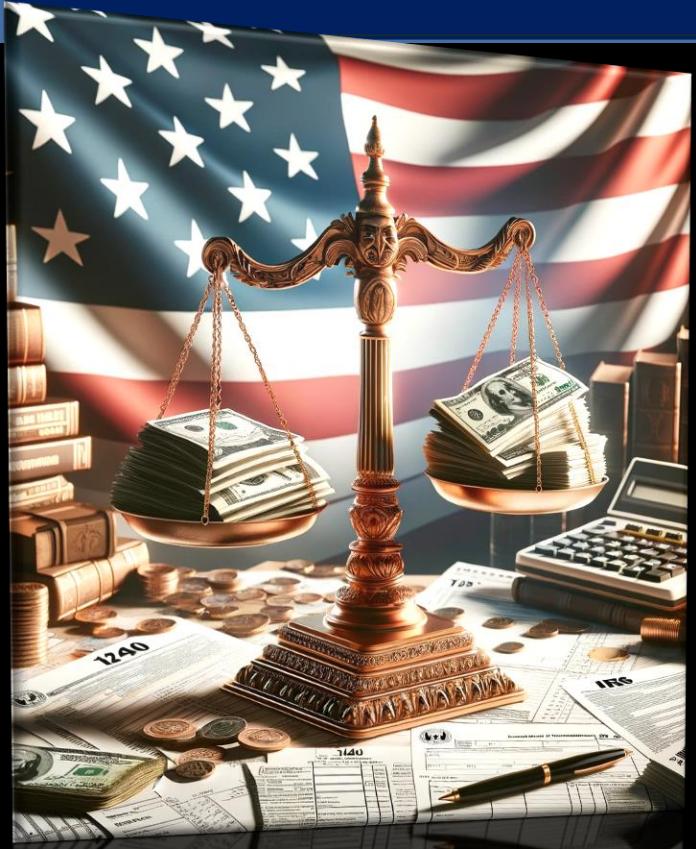
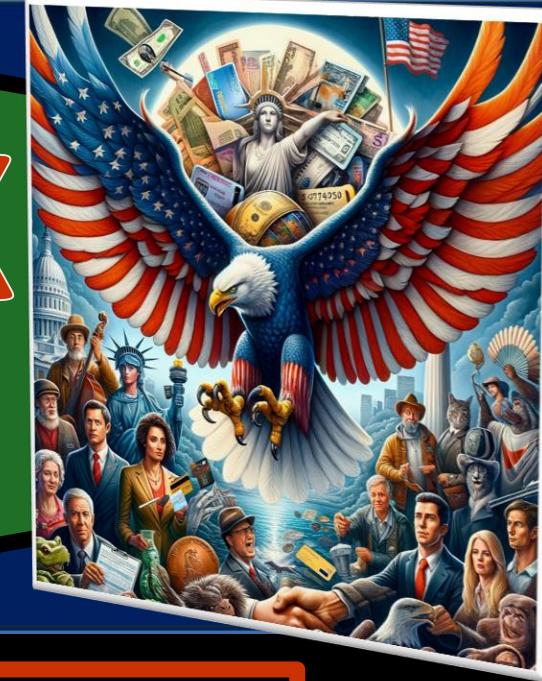
Therefore, you had 16 days of personal use and 83 days of rental use for this purpose. Because you used the cottage for personal purposes more than 14 days and more than 10% of the days of rental use (8 days), you used it as a home.

If you have a net loss, you may not be able to deduct all of the rental expenses. See *Dwelling Unit Used as a Home* next.



Income Tax

2023-2024



Rental Property - Personal
Use - Dwelling Unit Used
as a Home & Reporting
Income & Deductions





Department of the Treasury
Internal Revenue Service

Publication 527

Cat. No. 15052W

Residential Rental Property

(Including Rental of Vacation Homes)

For use in preparing

2023 Returns

Income

- Adjustments to Income

= **Adjusted Gross Income (AGI)**

- **Greater of:**

Standard Deduction or

Itemized Deduction

= **Taxable Income**

x **Tax Rates (Tax Tables)**

= **Tax Before Credits & Other Taxes**

- + **Tax Credits & Other Taxes**

= **Total Tax**

- **Tax Payments & Refundable Credits**

= **Tax Refund or Tax Due**

Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		1a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		1b
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		1c
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		1d
		e Taxable dependent care benefits from Form 2441, line 26		1e
		f Employer-provided adoption benefits from Form 8839, line 29		1f
		g Wages from Form 8919, line 6		1g
		h Other earned income (see instructions)		1h
		i Nontaxable combat pay election (see instructions)		1i
		z Add lines 1a through 1h		1z
Attach Sch. B if required.		2a Tax-exempt interest	2a	b Taxable interest
		3a Qualified dividends	3a	b Ordinary dividends
		4a IRA distributions	4a	b Taxable amount
		5a Pensions and annuities	5a	b Taxable amount
		6a Social security benefits	6a	b Taxable amount
		c If you elect to use the lump-sum election method, check here (see instructions)		<input type="checkbox"/>
		7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>
		8 Additional income from Schedule 1, line 10		8
		9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income		9
		10 Adjustments to income from Schedule 1, line 26		10
		11 Subtract line 10 from line 9. This is your adjusted gross income		11
		12 Standard deduction or itemized deductions (from Schedule A)		12
		13 Qualified business income deduction from Form 8995 or Form 8995-A		13
		14 Add lines 12 and 13		14
		15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income		15

SCHEDULE 1
(Form 1040)Department of the Treasury
Internal Revenue Service**Additional Income and Adjustments to Income**

Attach to Form 1040, 1040-SR, or 1040-NR.

Go to www.irs.gov/Form1040 for instructions and the latest information.

OMB No. 1545-0074

2023Attachment
Sequence No. **01**

Name(s) shown on Form 1040, 1040-SR, or 1040-NR

Your social security number**Part I Additional Income**

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Attach Form 4797	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	
6	Farm income or (loss). Attach Schedule F	6	
7	Unemployment compensation	7	
8	Other income:		
a	Net operating loss	8a	()
b	Gambling	8b	
c	Cancellation of debt	8c	
d	Foreign earned income exclusion from Form 2555	8d	()
e	Income from Form 8853	8e	
f	Income from Form 8889	8f	
g	Alaska Permanent Fund dividends	8g	
h	Jury duty pay	8h	

SCHEDULE E
(Form 1040)Department of the Treasury
Internal Revenue Service**Supplemental Income and Loss**

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0074

2023Attachment
Sequence No. 13

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.

Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return

Your social security number

Part I Income or Loss From Rental Real Estate and Royalties

Note: If you are in the business of renting personal property, use **Schedule C**. See instructions. If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2023 that would require you to file Form(s) 1099? See instructions Yes No

B If "Yes," did you or will you file required Form(s) 1099? Yes No

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	

1b	Type of Property (from list below)	2	Fair Rental Days	Personal Use Days	QJV
A		A			<input type="checkbox"/>
B		B			<input type="checkbox"/>
C		C			<input type="checkbox"/>

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5 Land	7 Self-Rental
2 Multi-Family Residence	4 Commercial	6 Royalties	8 Other (describe) _____

Income:	Properties:		
	A	B	C
3 Rents received	3		
4 Royalties received	4		

Dwelling Unit Used as a Home

- If you use a dwelling unit for both rental and personal purposes, the tax treatment of the rental expenses you figured earlier under *Dividing Expenses* and rental income depends on whether you are considered to be using the dwelling unit as a home.





You use a dwelling unit as a home during the tax year if you use it for personal purposes more than the greater of:

14 days, or

10% of the total days it is rented to others at a fair rental price.

If a dwelling unit is used for personal purposes on a day it is rented at a fair rental price (discussed earlier), don't count that day as a day of rental use in applying (2) above. Instead, count it as a day of personal use in applying both (1) and (2) above.





What is a day of personal use?

A day of personal use of a dwelling unit is any day that the unit is used by any of the following persons.

You or any other person who owns an interest in it, unless you rent it to another owner as their main home under a shared equity financing agreement (defined later). However, see *Days used as a main home before or after renting*, later.

A member of your family or a member of the family of any other person who owns an interest in it, unless the family member uses the dwelling unit as their main home and pays a fair rental price. Family includes only your spouse, siblings, half siblings, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).

Anyone under an arrangement that lets you use some other dwelling unit.

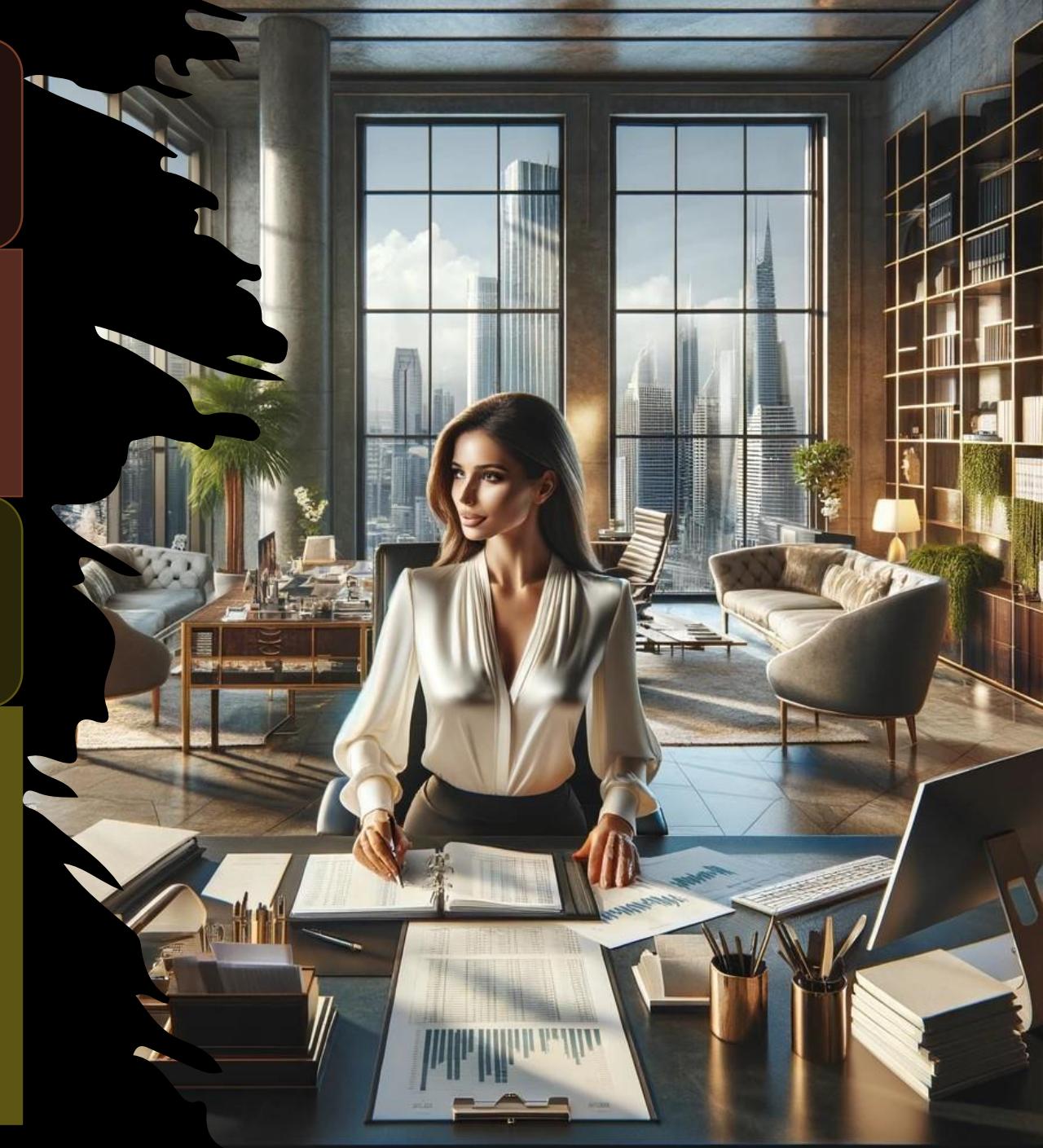
Anyone at less than a fair rental price.

Main home.

- If the other person or member of the family in (1) or (2) has more than one home, their main home are ordinarily the one they lived in most of the time.

Shared equity financing agreement.

- This is an agreement under which two or more persons acquire un-divided interests for more than 50 years in an entire dwelling unit, including the land, and one or more of the co-owners are entitled to occupy the unit as their main home upon payment of rent to the other co-owner(s).





Donation of use of the property.

You use a dwelling unit for personal purposes if:

You donate the use of the unit to a charitable organization,

The organization sells the use of the unit at a fundraising event, and

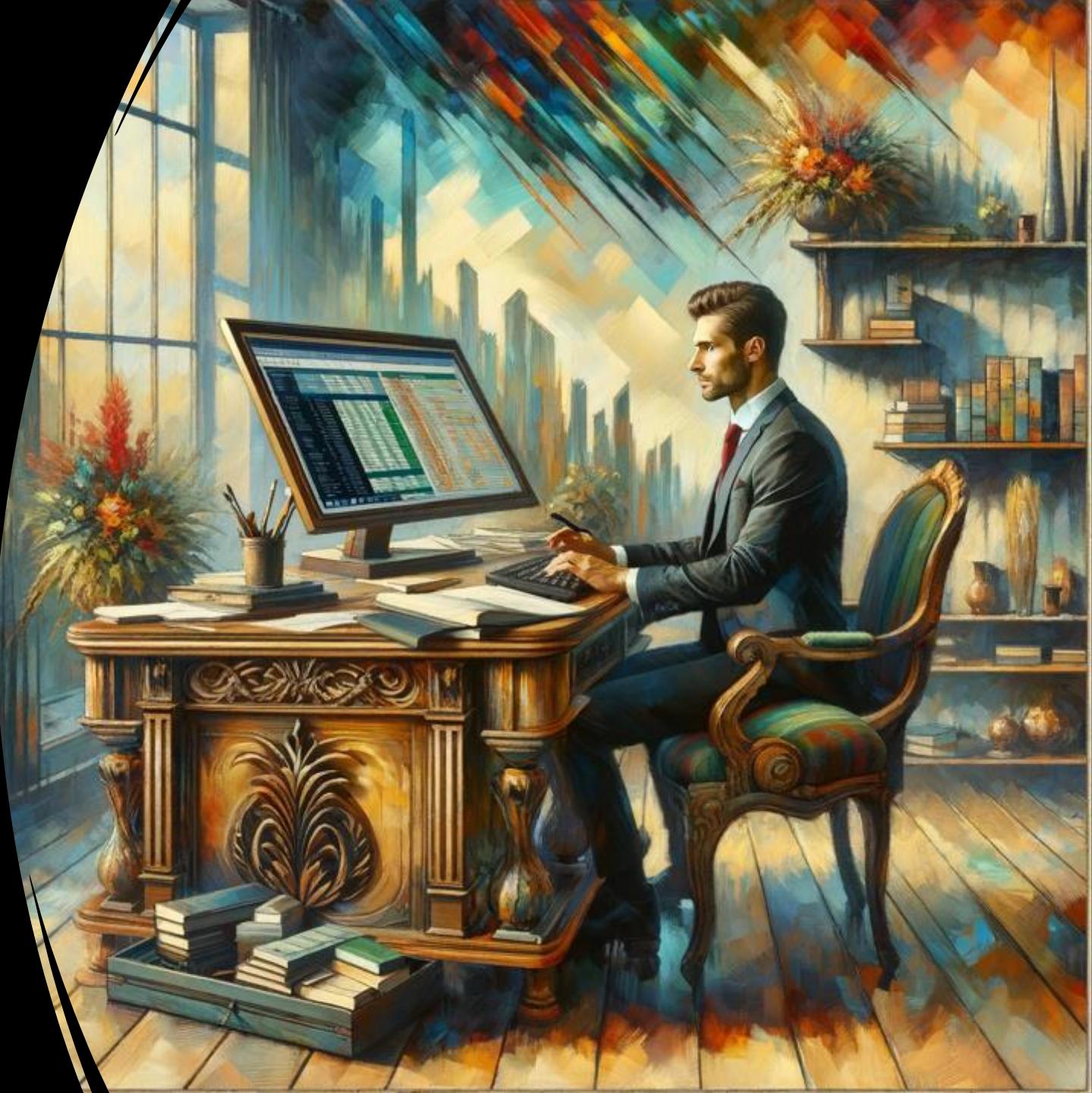
The “purchaser” uses the unit.

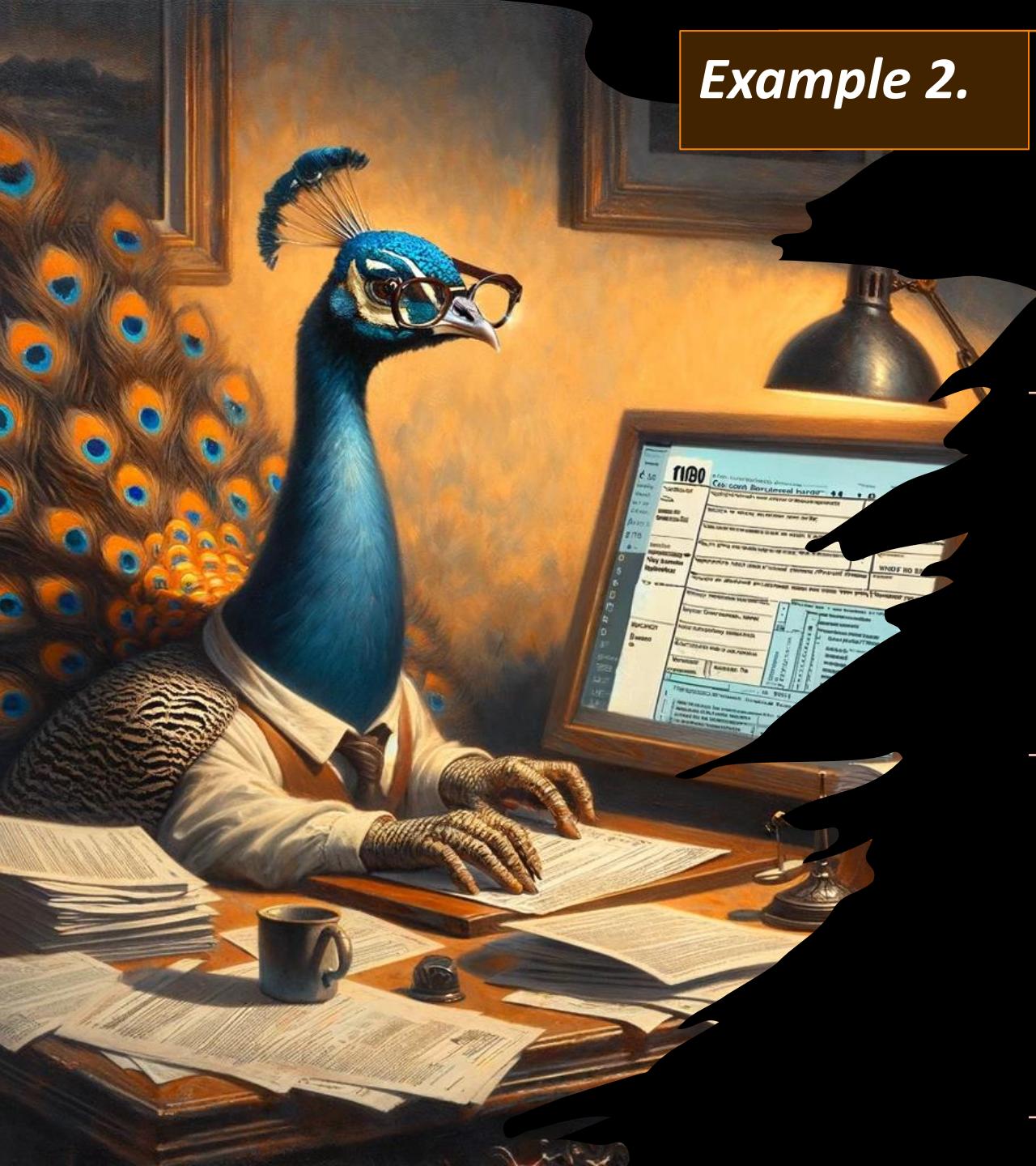
Example 1.

You and your neighbor are co-owners of a condominium at the beach. Last year, you rented the unit to vacationers whenever possible.

The unit wasn't used as a main home by anyone. Your neighbor used the unit for 2 weeks last year; you didn't use it at all.

Because your neighbor has an interest in the unit, both of you are considered to have used the unit for personal purposes during those 2 weeks.





Example 2.

You and your neighbors are co-owners of a house under a shared equity financing agreement. Your neighbors live in the house and pay you a fair rental price.

Even though your neighbors have an interest in the house, the days your neighbors live there aren't counted as days of personal use by you.

This is because your neighbors rent the house as their main home under a shared equity financing agreement.

Example 3.

You own a rental property that you rent to your son. Your son doesn't own any interest in this property. He uses it as his main home and pays you a fair rental price.

Your son's use of the property isn't personal use by you because your son is using it as his main home, he owns no interest in the property, and he is paying you a fair rental price.





Example 4.

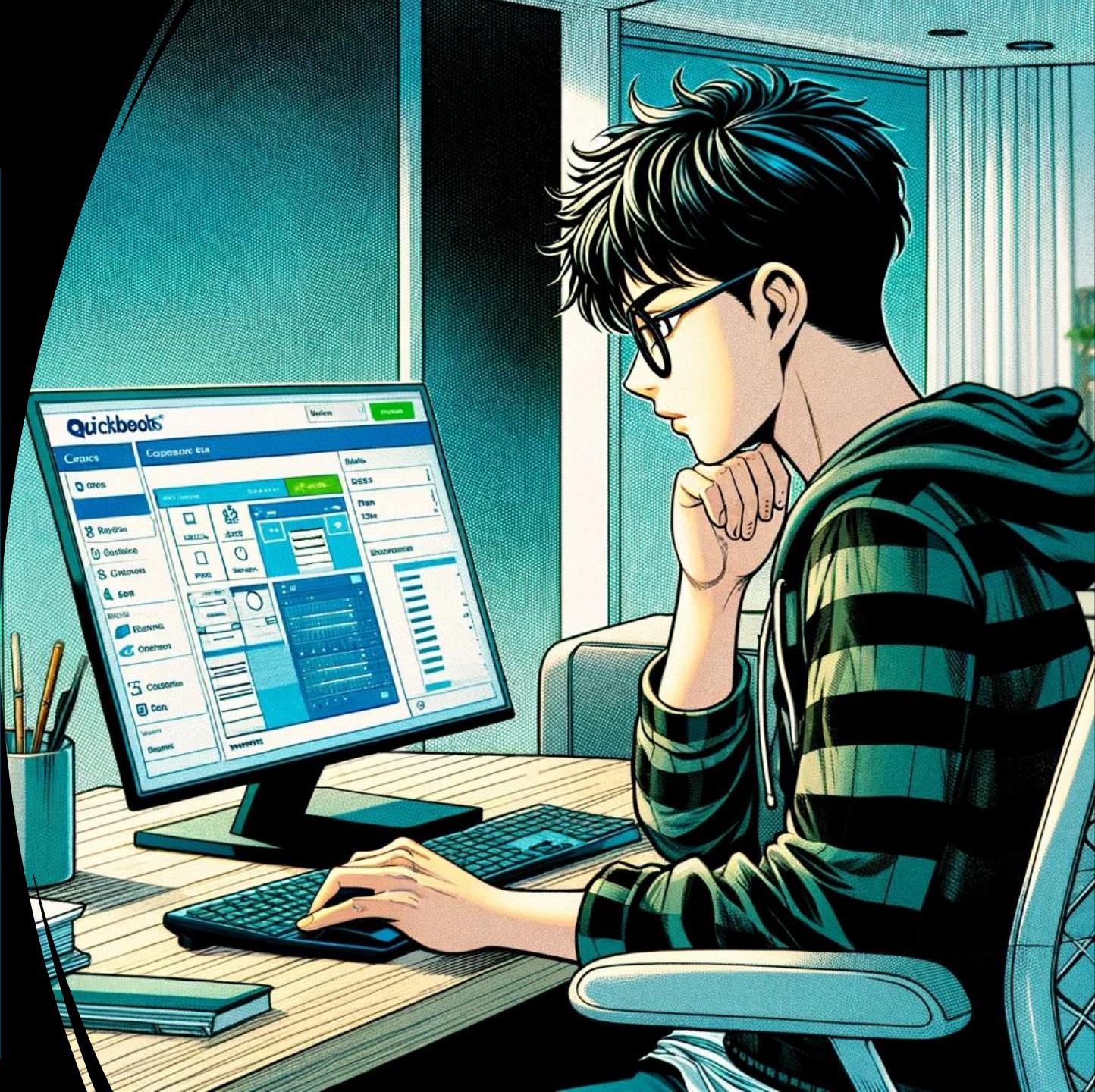
You rent your beach house to Rosa. Rosa rents her cabin in the mountains to you. You each pay a fair rental price.

You are using your beach house for personal purposes on the days that Rosa uses it because your house is used by Rosa under an arrangement that allows you to use her cabin.

Example 5.

You rent an apartment to your mother at less than a fair rental price.

You are using the apartment for personal purposes on the days that your mother rents it because you rent it for less than a fair rental price.





Days used for repairs and maintenance.

Any day that you spend working substantially full time repairing and maintaining (not improving) your property isn't counted as a day of personal use.

Don't count such a day as a day of personal use even if family members use the property for recreational purposes on the same day.

Example.

Corey owns a cabin in the mountains that he rents for most of the year. He spends a week at the cabin with family members.

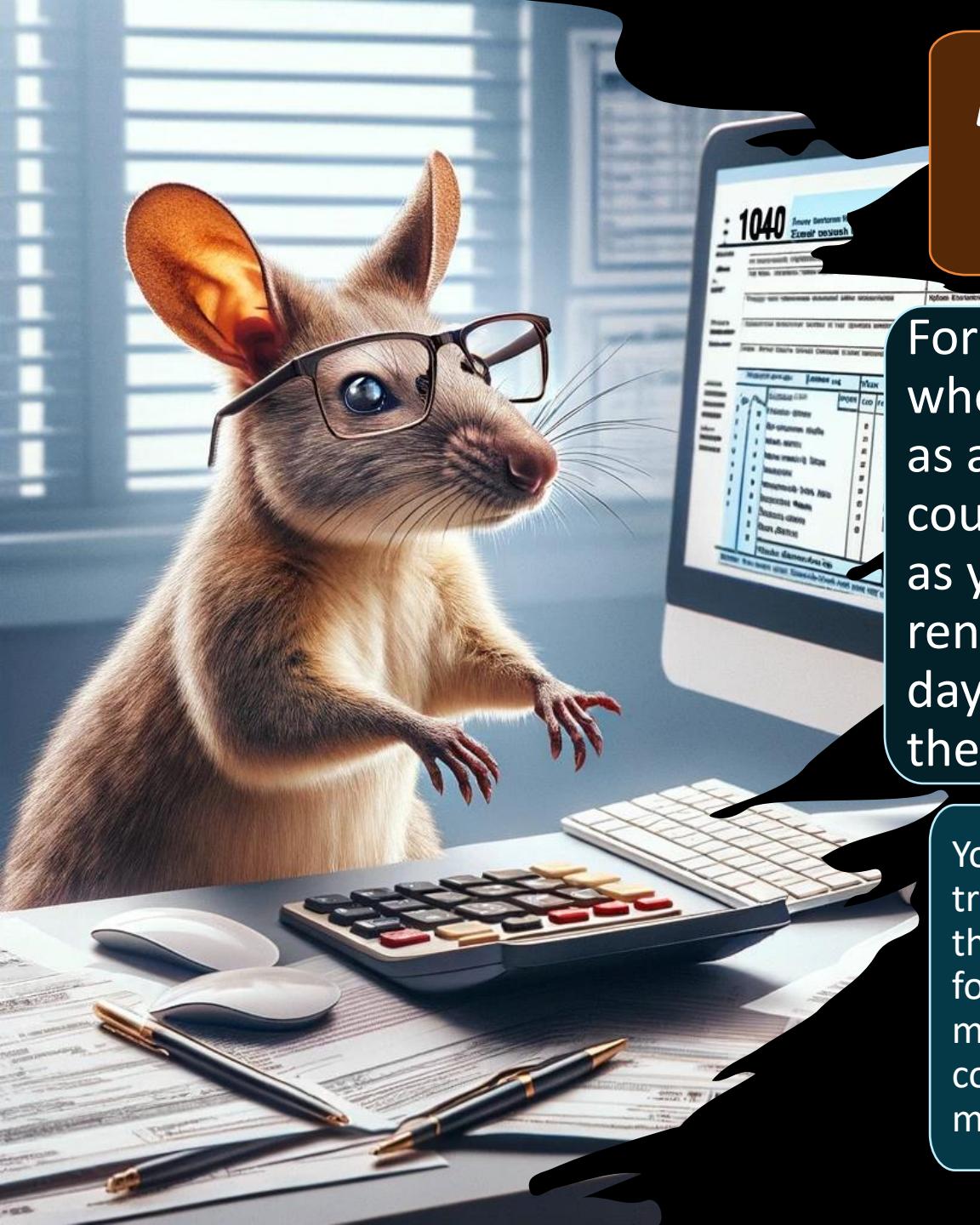
Corey works on maintenance of the cabin 3 or 4 hours each day during the week and spends the rest of the time fishing, hiking, and relaxing.

Corey's family members, however, work substantially full time on the cabin each day during the week.

The main purpose of being at the cabin that week is to do maintenance work.

Therefore, the use of the cabin during the week by Corey and his family won't be considered personal use by Corey.





Days used as a main home before or after renting.

For purposes of determining whether a dwelling unit was used as a home, you may not have to count days you used the property as your main home before or after renting it or offering it for rent as days of personal use. Don't count them as days of personal use if:

You rented or tried to rent the property for 12 or more consecutive months, or

You rented or tried to rent the property for a period of less than 12 consecutive months and the period ended because you sold or exchanged the property.

However, this special rule doesn't apply when dividing expenses between rental and personal use. See *Property Changed to Rental Use* in chapter 4.

Example 1.

On February 28, 2022, you moved out of the house you had lived in for 6 years because you accepted a job in another town. You rented your house at a fair rental price from March 15, 2022, to May 14, 2023 (14 months). On June 1, 2023, you moved back into your old house.

The days you used the house as your main home from January 1 to February 28, 2022, and from June 1 to December 31, 2023, aren't counted as days of personal use. Therefore, you would use the rules in chapter 1 when figuring your rental income and expenses.





Example 2.

On January 31, you moved out of the condominium where you had lived for 3 years.

You offered it for rent at a fair rental price beginning on February 1.

You were unable to rent it until April. On September 15, you sold the condominium.

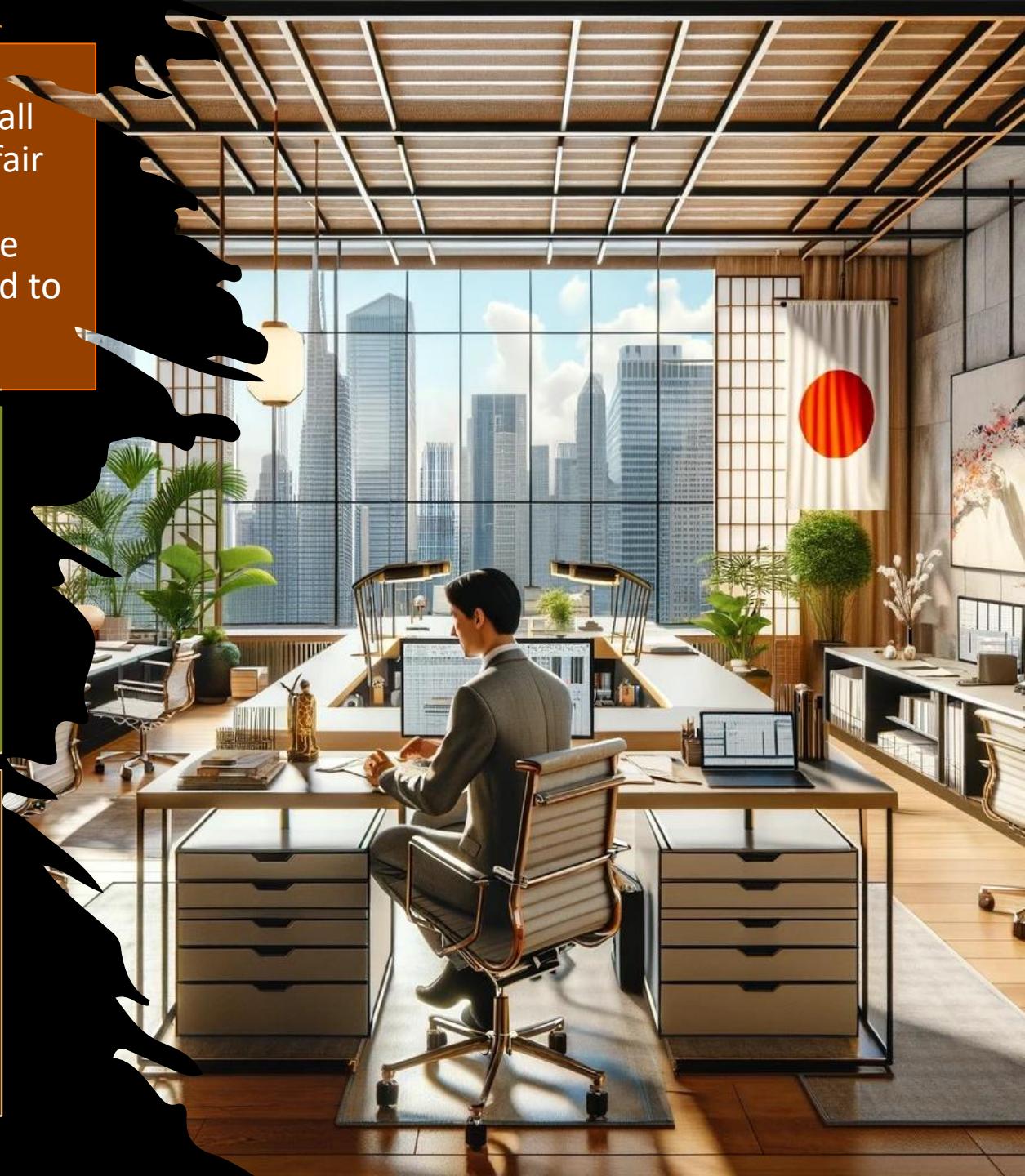
The days you used the condominium as your main home from January 1 to January 31 aren't counted as days of personal use when determining whether you used it as a home.

Example 1.

You converted the basement of your home into an apartment with a bedroom, a bathroom, and a small kitchen. You rented the basement apartment at a fair rental price to college students during the regular school year. You rented to them on a 9-month lease (273 days). You figured 10% of the total days rented to others at a fair rental price is 27 days.

During June (30 days), your brothers stayed with you and lived in the basement apartment rent free.

Your basement apartment was used as a home because you used it for personal purposes for 30 days. Rent-free use by your brothers is considered personal use. Your personal use (30 days) is more than the greater of 14 days or 10% of the total days it was rented (27 days).





Example 2.

You rented the guest bedroom in your home at a fair rental price during the local college's homecoming, commencement, and football weekends (a total of 27 days).

Your sister-in-law stayed in the room rent free for the last 3 weeks (21 days) in July. You figured 10% of the total days rented to others at a fair rental price is 3 days.

The room was used as a home because you used it for personal purposes for 21 days. That is more than the greater of 14 days or 10% of the 27 days it was rented (3 days).

**Example
3.**

You own a condominium apartment in a resort area. You rented it at a fair rental price for a total of 170 days during the year. For 12 of these days, the tenant wasn't able to use the apartment and allowed you to use it even though you didn't refund any of the rent. Your family actually used the apartment for 10 of those days.

Therefore, the apartment is treated as having been rented for 160 ($170 - 10$) days. You figured 10% of the total days rented to others at a fair rental price is 16 days. Your family also used the apartment for 7 other days during the year.

You used the apartment as a home because you used it for personal purposes for 17 days. That is more than the greater of 14 days or 10% of the 160 days it was rented (16 days).





- If you use the dwelling unit as a home and you rent it less than 15 days during the year, that period isn't treated as rental activity. See *Used as a home but rented less than 15 days*, later, for more information.

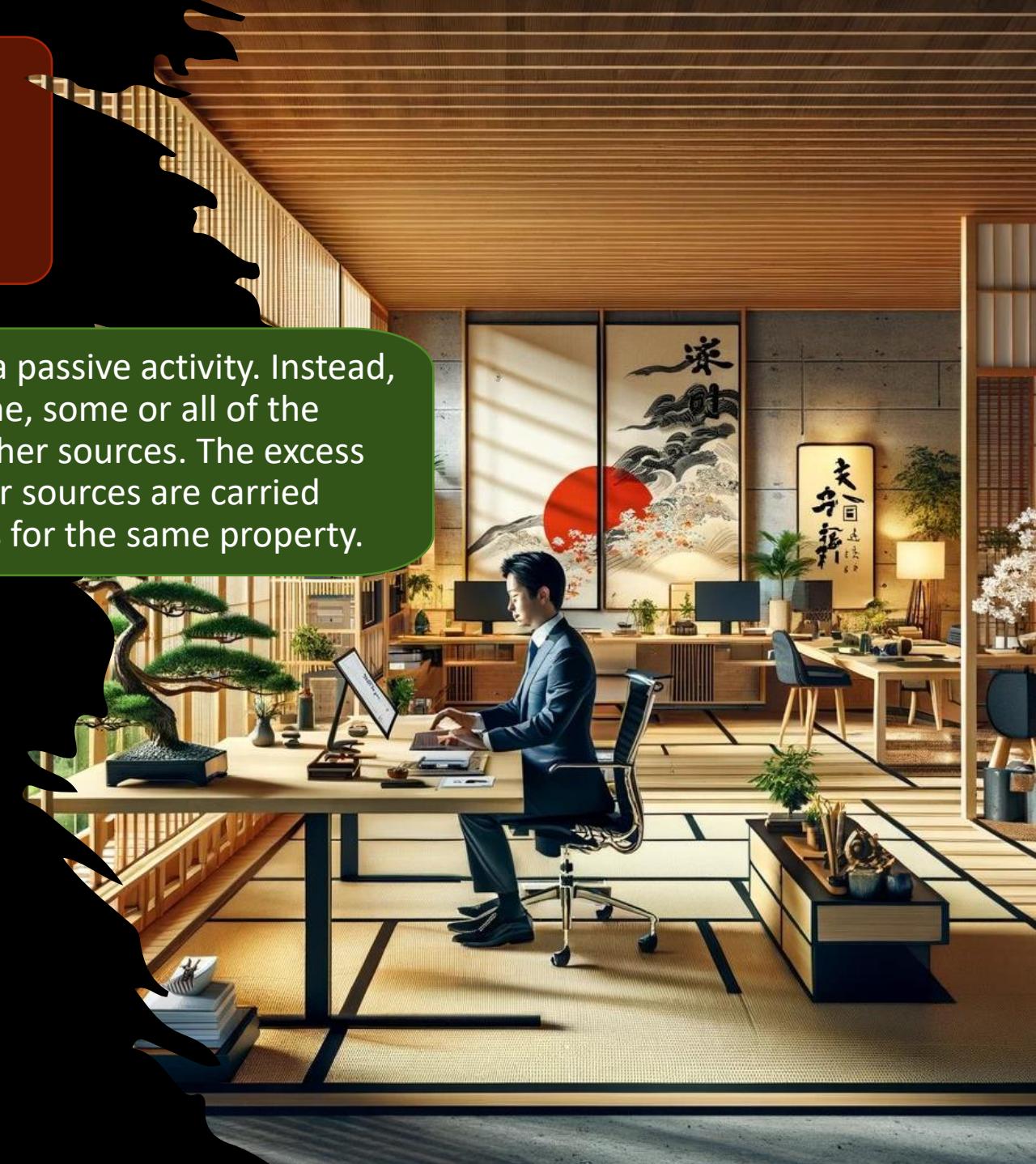
Minimal
rental use.

Limit on deductions.

Renting a dwelling unit that is considered a home isn't a passive activity. Instead, if your rental expenses are more than your rental income, some or all of the excess expenses can't be used to offset income from other sources. The excess expenses that can't be used to offset income from other sources are carried forward to the next year and treated as rental expenses for the same property.

Any expenses carried forward to the next year will be subject to any limits that apply for that year. This limitation will apply to expenses carried forward to another year even if you don't use the property as your home for that subsequent year.

To figure your deductible rental expenses for this year and any carryover to next year, use Worksheet 5-1.





Reporting Income and Deductions

Property not used for personal purposes.

If you don't use a dwelling unit for personal purposes, see chapter 3 for how to report your rental income and expenses.

Property used for personal purposes.

If you do use a dwelling unit for personal purposes, then how you report your rental income and expenses depends on whether you used the dwelling unit as a home.

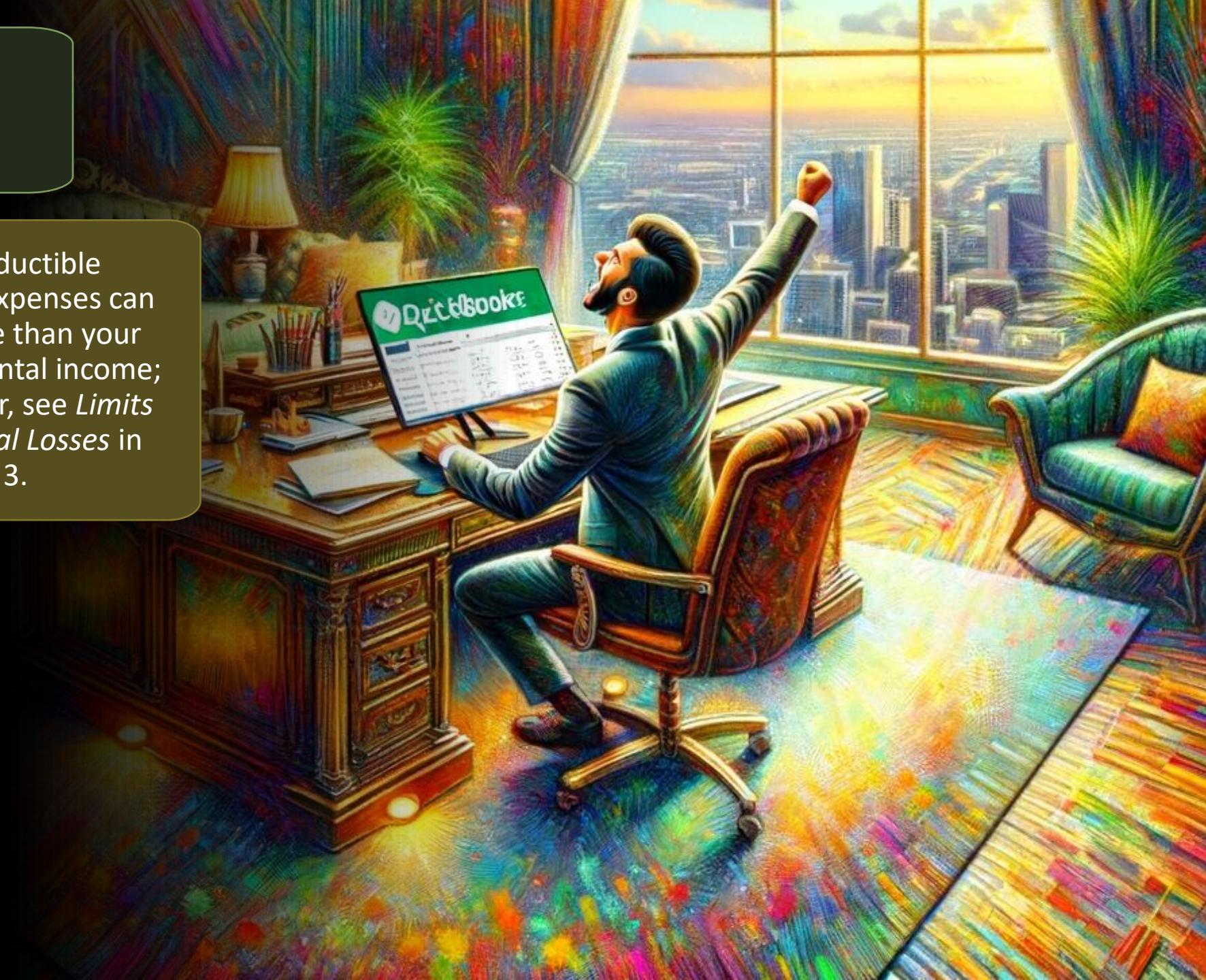
Not used as a home.

If you use a dwelling unit for personal purposes, but not as a home, report all the rental income in your income.

Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*.

The expenses for personal use aren't deductible as rental expenses.

Your deductible rental expenses can be more than your gross rental income; however, see *Limits on Rental Losses* in chapter 3.





Used as a home but rented less than 15 days.

If you use a dwelling unit as a home and you rent it less than 15 days during the year, its primary function isn't considered to be rental and it shouldn't be reported on Schedule E (Form 1040).

You aren't required to report the rental income and rental expenses from this activity.

Any expenses related to the home, such as mortgage interest, property taxes, and any qualified casualty loss, will be reported as normally allowed on Schedule A (Form 1040).

See the Instructions for Schedule A for more information on deducting these expenses.

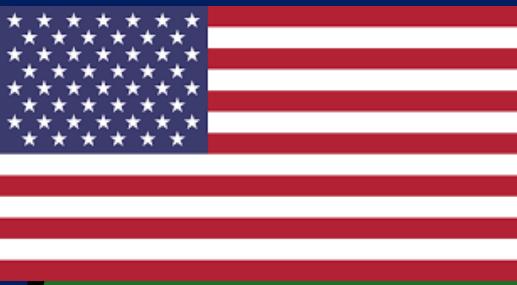
Used as a home and rented 15 days or more.

If you use a dwelling unit as a home and rent it 15 days or more during the year, include all your rental income in your in-come. Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*. The expenses for personal use aren't deductible as rental expenses.

If you had a net profit from renting the dwelling unit for the year (that is, if your rental income is more than the total of your rental expenses, including depreciation), deduct all of your rental expenses. You don't need to use Worksheet 5-1.

However, if you had a net loss from renting the dwelling unit for the year, your deduction for certain rental expenses is limited. To figure your deductible rental expenses and any carryover to next year, use Worksheet 5-1.





Income Tax

2023-2024



Rental Property –
Renting Part of
Property & Change to
Rental Use **Example**



A woman with long brown hair tied back is sitting at a desk in a high-rise office, working on a computer. She is looking at the screen, which displays a webpage. The office has large windows that offer a panoramic view of a city skyline at sunset. The sky is filled with warm orange and yellow hues. The office interior is modern, with a wooden desk and a black office chair. A black silhouette of a hand is overlaid on the right side of the image, pointing towards the text boxes.

Condominiums

A condominium is most often a dwelling unit in a multi-unit building, but can also take other forms, such as a town-house or garden apartment.

If you own a condominium, you also own a share of the common elements, such as land, lobbies, elevators, and service areas. You and the other condominium owners may pay dues or assessments to a special corporation that is organized to take care of the common elements.

Special rules apply if you rent your condominium to others. You can deduct as rental expenses all the expenses discussed in chapters 1 and 2. In addition, you can deduct any dues or assessments paid for maintenance of the common elements.

You can't deduct special assessments you pay to a condominium management corporation for improvements. However, you may be able to recover your share of the cost of any improvement by taking depreciation.

Cooperatives

If you live in a cooperative, you don't own your apartment. Instead, a corporation owns the apartments and you are a tenant-stockholder in the cooperative housing corporation. If you rent your apartment to others, you can usually deduct, as a rental expense, all the maintenance fees you pay to the cooperative housing corporation.

In addition to the maintenance fees paid to the cooperative housing corporation, you can deduct your direct payments for repairs, upkeep, and other rental expenses, including interest paid on a loan used to buy your stock in the corporation.





Depreciation - You will be depreciating your stock in the corporation rather than the apartment itself.

Figure your depreciation deduction as follows.

Figure the depreciation for all the depreciable real property owned by the corporation. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.

Multiply your cost per share by the total number of outstanding shares.

Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.

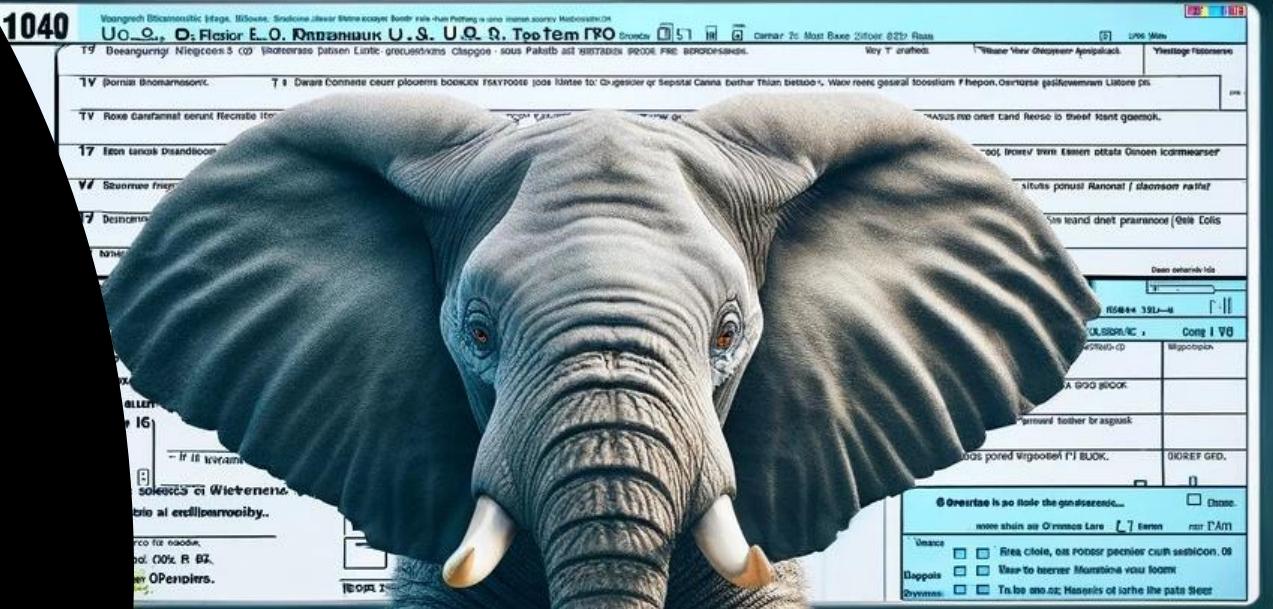
Subtract from the amount figured in (b) any mortgage debt that isn't for the depreciable real property, such as the part for the land.

Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but can't be lived in by tenant-stockholders

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year can't be more than the part of your adjusted basis (defined in chapter 2) in the stock of the corporation that is allocable to your rental property.





Payments added to capital account.

Payments earmarked for a capital asset or improvement, or otherwise charged to the corporation's capital account, are added to the basis of your stock in the corporation.

For example, you can't deduct a payment used to pave a community parking lot, install a new roof, or pay the principal of the corporation's mortgage.

Treat as a capital cost the amount you were assessed for capital items.

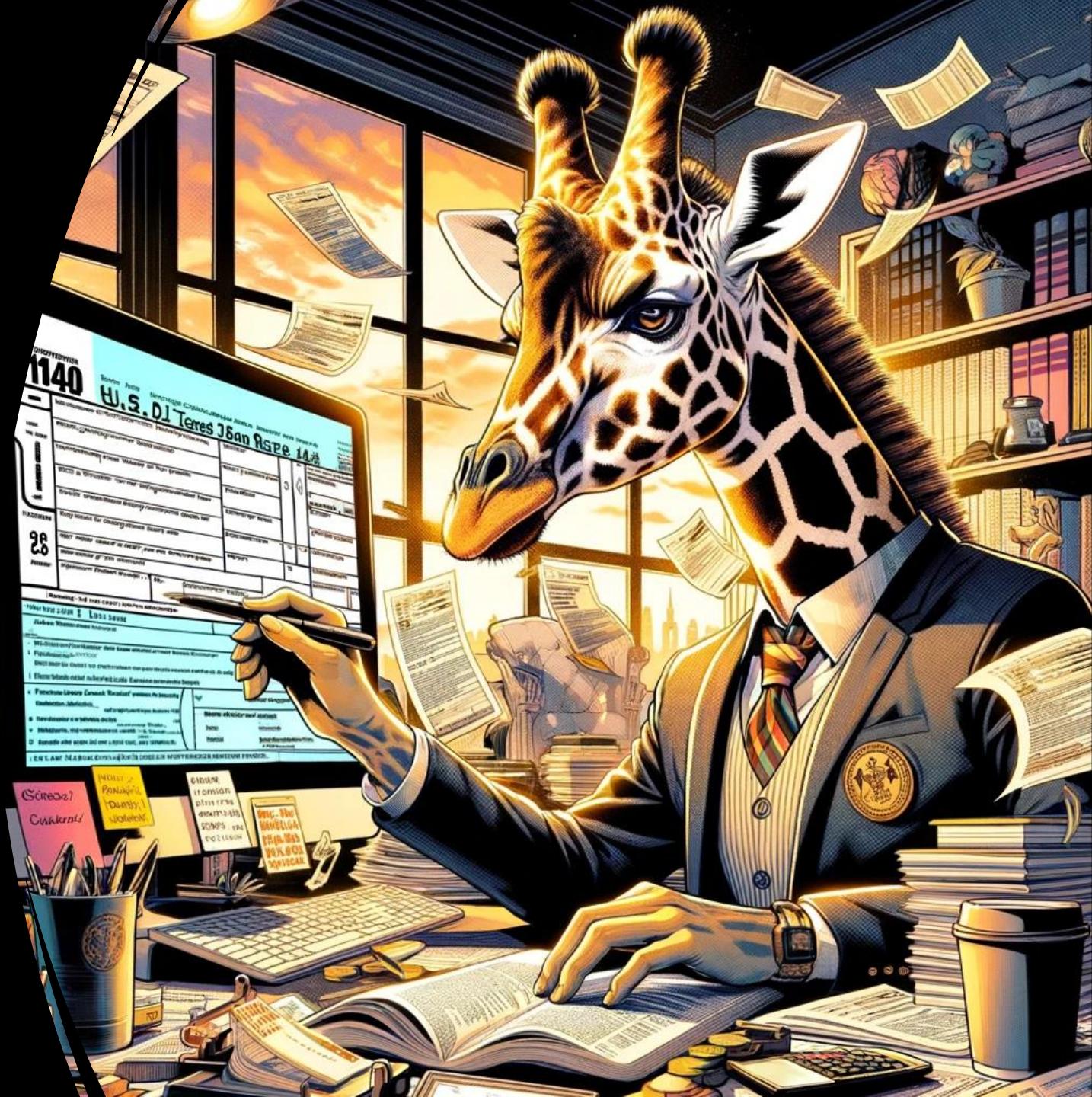
This can't be more than the amount by which your payments to the corporation exceeded your share of the corporation's mortgage interest and real estate taxes.

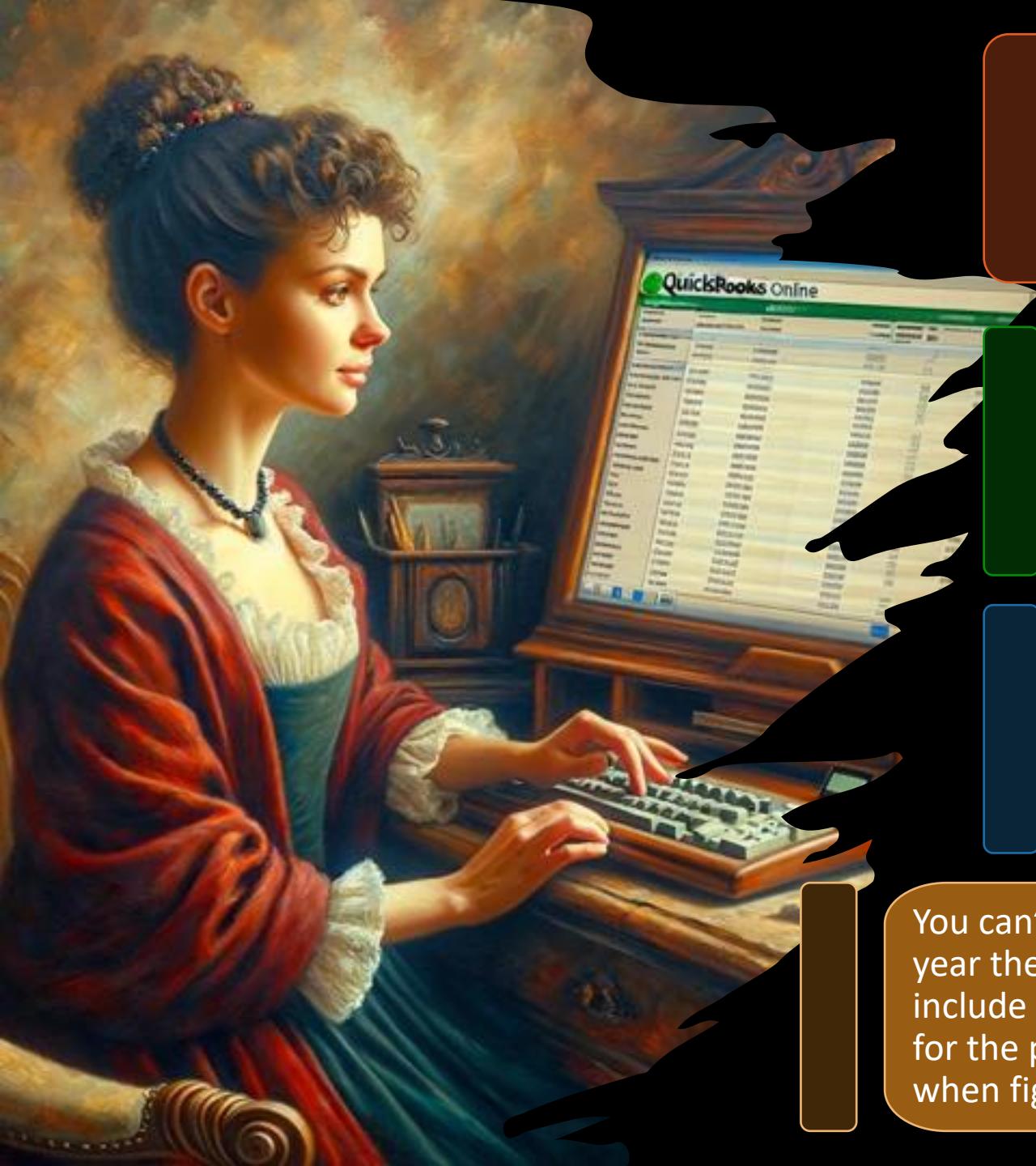
Your share of interest and taxes is the amount the corporation elected to allocate to you, if it reasonably reflects those expenses for your apartment. Otherwise, figure your share in the following manner.

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the corporation's deductible interest by the number you figured in (1). This is your share of the interest.

Multiply the corporation's deductible taxes by the number you figured in (1). This is your share of the taxes.





Property Changed to Rental Use

If you change your home or other property (or a part of it) to rental use at any time other than the beginning of your tax year, you must divide yearly expenses, such as taxes and insurance, between rental use and personal use.

You can deduct as rental expenses only the part of the expense that is for the part of the year the property was used or held for rental purposes.

You can't deduct depreciation or insurance for the part of the year the property was held for personal use. However, you can include the home mortgage interest and real estate tax expenses for the part of the year the property was held for personal use when figuring the amount you can deduct on Schedule A.

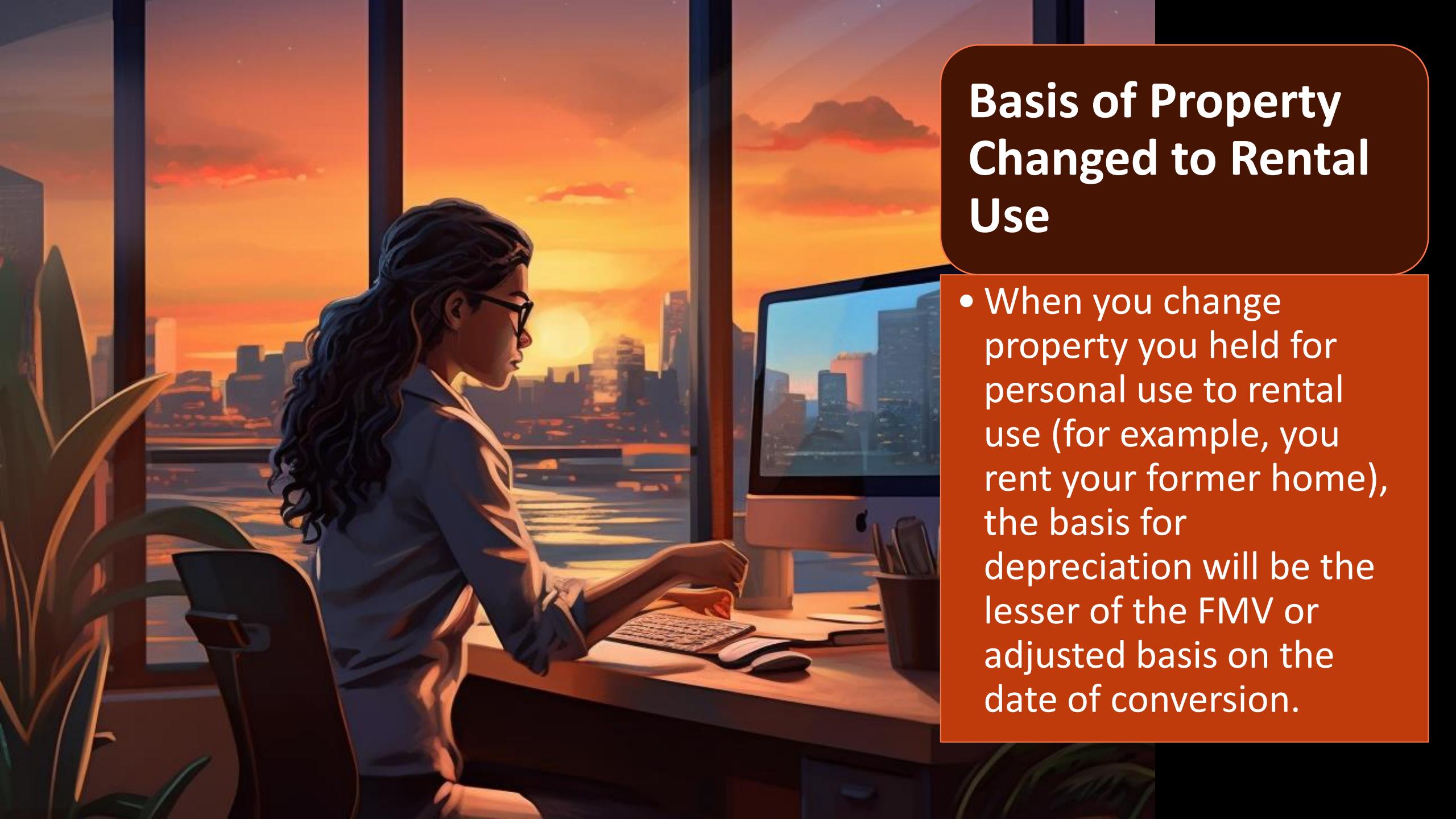
Example.

Your tax year is the calendar year. You moved from your home in May and started renting it out on June 1. You can deduct as rental expenses seven-twelfths of your yearly expenses, such as taxes and insurance.

Starting with June, you can deduct as rental expenses the amounts you pay for items generally billed monthly, such as utilities.

When figuring depreciation, treat the property as placed in service on June 1.



A woman with long dark hair and glasses is sitting at a desk, working on a computer. She is looking out of a window that offers a stunning sunset view of a city skyline across a body of water. The scene is bathed in warm, golden light from the setting sun. A potted plant is visible in the foreground on the left.

Basis of Property Changed to Rental Use

- When you change property you held for personal use to rental use (for example, you rent your former home), the basis for depreciation will be the lesser of the FMV or adjusted basis on the date of conversion.

FMV.

This is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts. Sales of similar property, on or about the same date, may be helpful in figuring the FMV of the property.





Figuring the basis.

The basis for depreciation is the lesser of:

The FMV of the property on the date you changed it to rental use; or

Your adjusted basis on the date of the change—that is, your original cost or other basis of the property, plus the cost of permanent additions or improvements since you acquired it, minus deductions for any casualty or theft losses claimed on earlier years' income tax returns and other decreases to basis. For other increases and decreases to basis, see *Adjusted Basis* in chapter 2.

Example.

You originally built a house for \$140,000 on a lot that cost you \$14,000, which you used as your home for many years. Before changing the property to rental use this year, you added \$28,000 of permanent improvements to the house and claimed a \$3,500 casualty loss deduction for damage to the house.

Part of the improvements qualified for a \$500 residential energy credit, which you claimed on a prior year tax return. Because land isn't depreciable, you can only include the cost of the house when figuring the basis for depreciation.

The adjusted basis of the house at the time of the change in its use was \$164,000 ($\$140,000 + \$28,000 - \$3,500 - \500).

On the date of the change in use, your property had an FMV of \$168,000, of which \$21,000 was for the land and \$147,000 was for the house.

The basis for depreciation on the house is the FMV on the date of the change (\$147,000) because it is less than your adjusted basis (\$164,000).





Cooperatives

If you change your cooperative apartment to rental use, figure your allowable depreciation as explained earlier. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

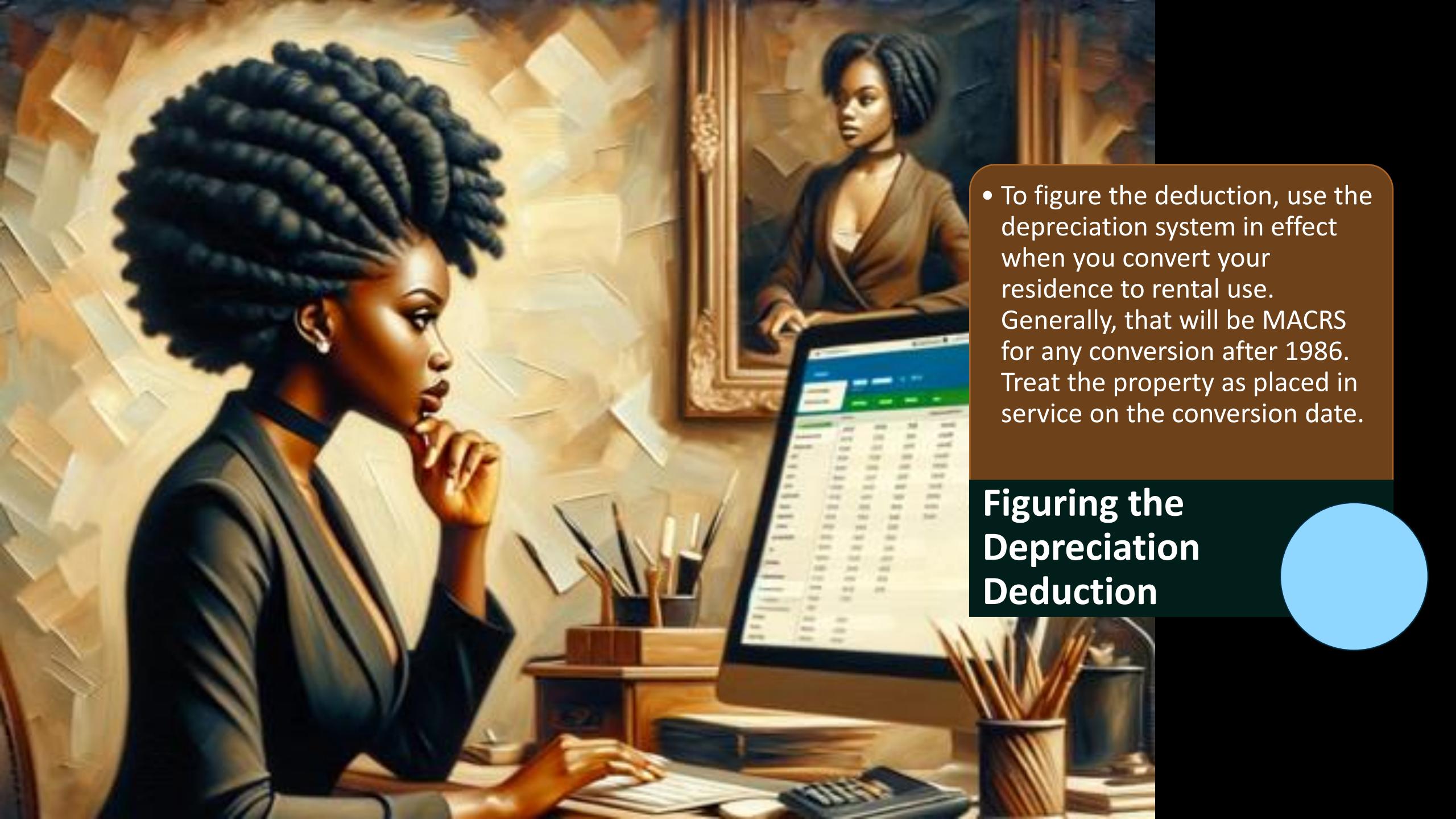
The FMV of the property on the date you change your apartment to rental use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.

The corporation's adjusted basis in the property on that date. Don't subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) under *Depreciation*, earlier.

The FMV of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.





- To figure the deduction, use the depreciation system in effect when you convert your residence to rental use. Generally, that will be MACRS for any conversion after 1986. Treat the property as placed in service on the conversion date.

Figuring the Depreciation Deduction

Example.

- Your converted residence (see the previous example under *Figuring the basis*, earlier) was available for rent on August 1.
- Using Table 2-2d (see chapter 2), the percentage for Year 1 beginning in August is 1.364% and the depreciation deduction for Year 1 is \$2,005 ($\$147,000 \times 1.364\% (0.01364)$).



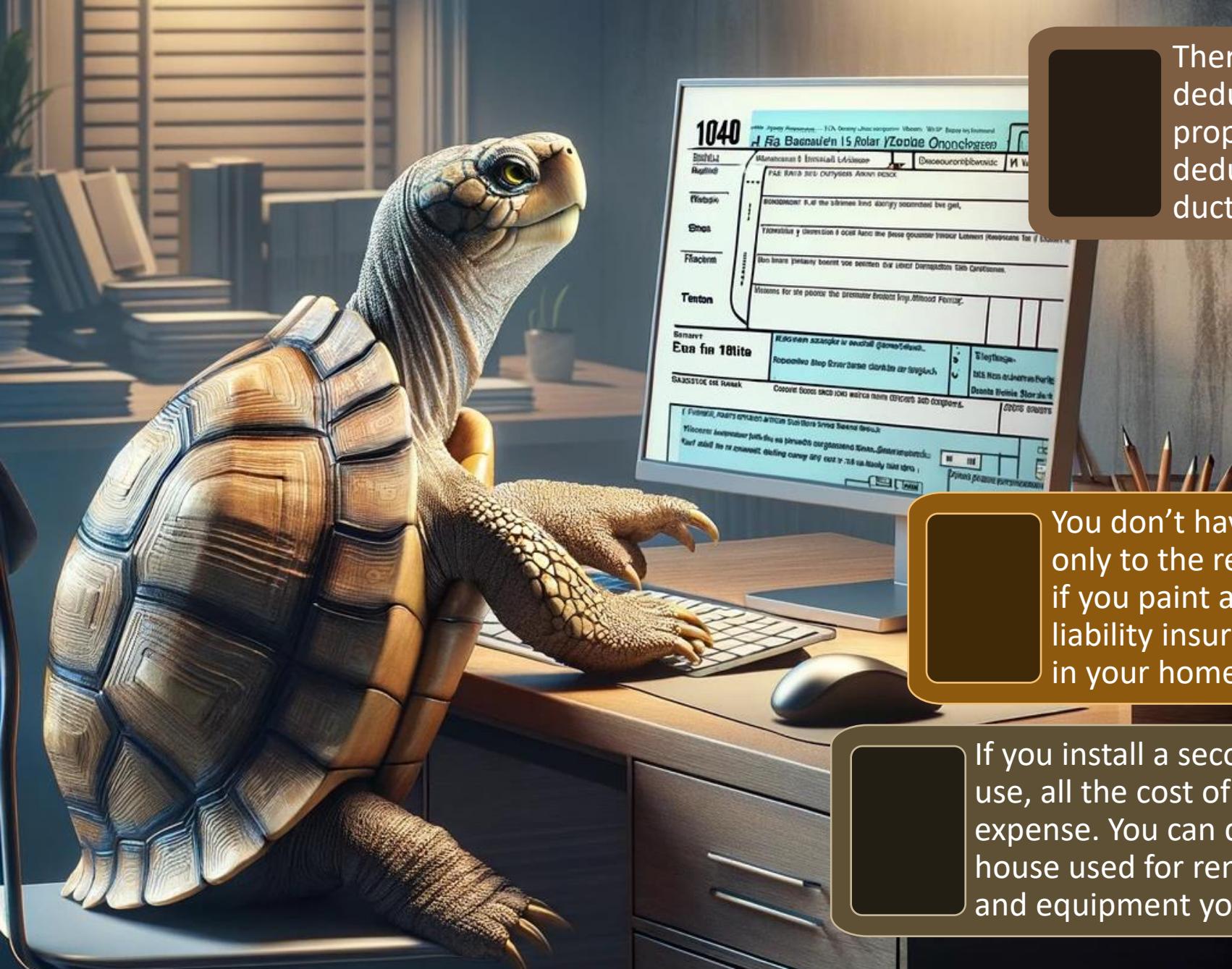
Renting Part of Property

If you rent part of your property, you must divide certain expenses between the part of the property used for rental purposes and the part of the property used for personal purposes, as though you actually had two separate pieces of property.

You can deduct the expenses related to the part of the property used for rental purposes, such as home mortgage interest and real estate taxes, as rental expenses on Schedule E (Form 1040).

You can also deduct as rental expenses a portion of other expenses that are normally nondeductible personal expenses, such as expenses for electricity or painting the outside of the house.





There is no change in the types of expenses deductible for the personal-use part of your property. Generally, these expenses may be deducted only if you itemize your deductions on Schedule A (Form 1040).

You can't deduct any part of the cost of the first phone line even if your tenants have unlimited use of it.

You don't have to divide the expenses that belong only to the rental part of your property. For example, if you paint a room that you rent or pay premiums for liability insurance in connection with renting a room in your home, your entire cost is a rental expense.

If you install a second phone line strictly for your tenant's use, all the cost of the second line is deductible as a rental expense. You can deduct depreciation on the part of the house used for rental purposes as well as on the furniture and equipment you use for rental purposes.

How to divide expenses.

If an expense is for both rental use and personal use, such as mortgage interest or heat for the entire house, you must divide the expense between rental use and personal use. You can use any reasonable method for dividing the expense.

It may be reasonable to divide the cost of some items (for example, water) based on the number of people using them. The two most common methods for dividing an expense are (1) the number of rooms in your home, and (2) the square footage of your home.





Example.

You rent a room in your house. The room is 12×15 feet, or 180 square feet. Your entire house has 1,800 square feet of floor space. You can deduct as a rental expense 10% of any expense that must be divided between rental use and personal use.

If your heating bill for the year for the entire house was \$600, \$60 ($\$600 \times 10\% (0.10)$) is a rental expense. The balance, \$540, is a personal expense that you can't deduct.

Duplex.

- A common situation is the duplex where you live in one unit and rent out the other. Certain expenses apply to the entire property, such as mortgage interest and real estate taxes, and must be split to determine rental and personal expenses.





Example.

You own a duplex and live in one half, renting out the other half. Both units are approximately the same size. Last year, you paid a total of \$10,000 mortgage interest and \$2,000 real estate taxes for the entire property.

You can deduct \$5,000 mortgage interest and \$1,000 real estate taxes on Schedule E. If you itemize your de-ductions, include the other \$5,000 mortgage interest and \$1,000 real estate taxes when figuring the amount you can deduct on Schedule A.

Not Rented for Profit

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.

You can't deduct a loss or carry forward to the next year any rental expenses that are more than your rental income for the year.





Where to report.

- Report your not-for-profit rental income on Schedule 1 (Form 1040), line 8j. If you itemize your deductions, include your mortgage interest (if you use the property as your main home or second home), real estate taxes, and casualty losses from your not-for-profit rental activity when figuring the amount you can deduct on Schedule A.

Presumption of profit.

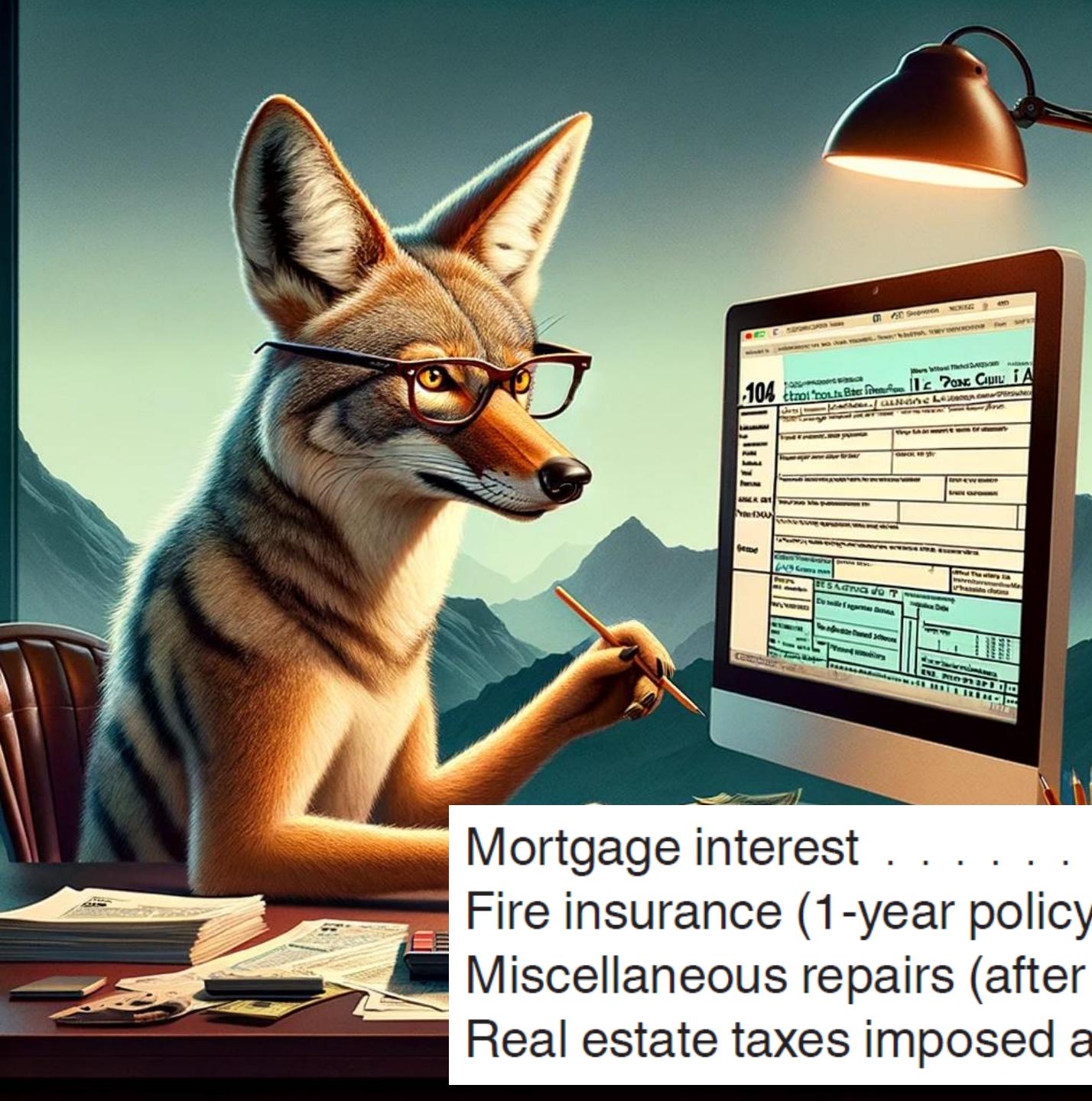
- If your rental income is more than your rental expenses for at least 3 years out of a period of 5 consecutive years, you are presumed to be renting your property to make a profit.

Postponing decision.

If you are starting your rental activity and don't have 3 years showing a profit, you can elect to have the presumption made after you have the 5 years of experience required by the test. You may choose to postpone the decision of whether the rental is for profit by filing Form 5213.

You must file Form 5213 within 3 years after the due date of your return (determined without extensions) for the year in which you first carried on the activity or, if earlier, within 60 days after receiving written notice from the IRS proposing to disallow deductions attributable to the activity.





Example—Property Changed to Rental Use

In January, you bought a condominium apartment to live in. Instead of selling the house you had been living in, you decided to change it to rental property. You selected a tenant and started renting the house on February 1.

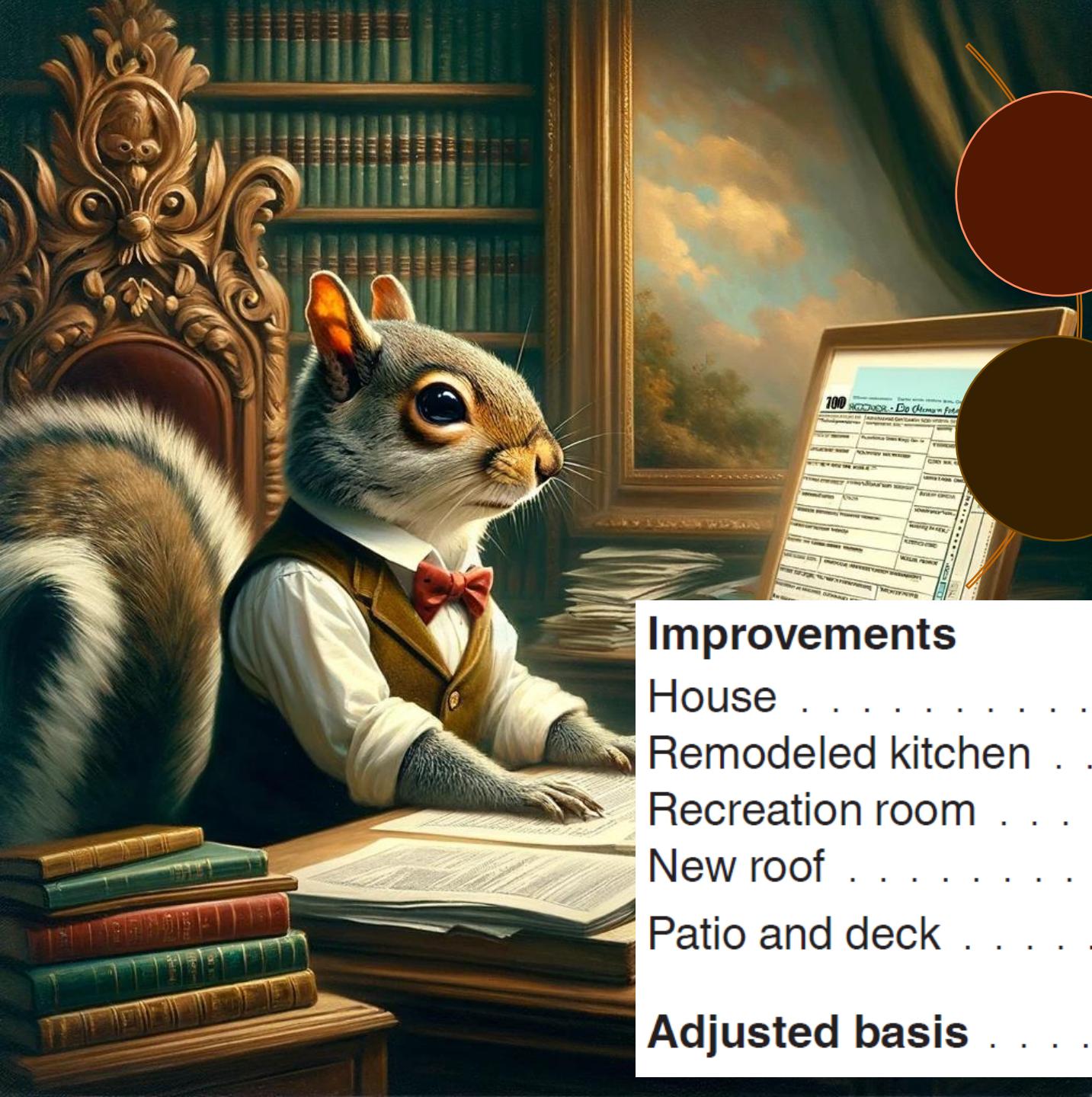
You charge \$750 a month for rent and collect it yourself. You also received a \$750 security deposit from your tenant. Because you plan to return it to your tenant at the end of the lease, you don't include it in your income. Your rental expenses for the year are as follows.

Mortgage interest	.....	\$1,800
Fire insurance (1-year policy)	.....	100
Miscellaneous repairs (after renting)	.....	297
Real estate taxes imposed and paid	.....	1,200

You must divide the real estate taxes, mortgage interest, and fire insurance between the personal use of the property and the rental use of the property. You can deduct eleven-twelfths of these expenses as rental expenses.

You can include the balance of the real estate taxes and mortgage interest when figuring the amount you can deduct on Schedule A if you itemize. You can't deduct the balance of the fire insurance because it is a personal expense.





You bought this house in 2008 for \$35,000. Your property tax was based on assessed values of \$10,000 for the land and \$25,000 for the house.

Before changing it to rental property, you added several improvements to the house. You figure your adjusted basis as follows.

Improvements	Cost
House	\$25,000
Remodeled kitchen	4,200
Recreation room	5,800
New roof	1,600
Patio and deck	2,400
Adjusted basis	\$39,000

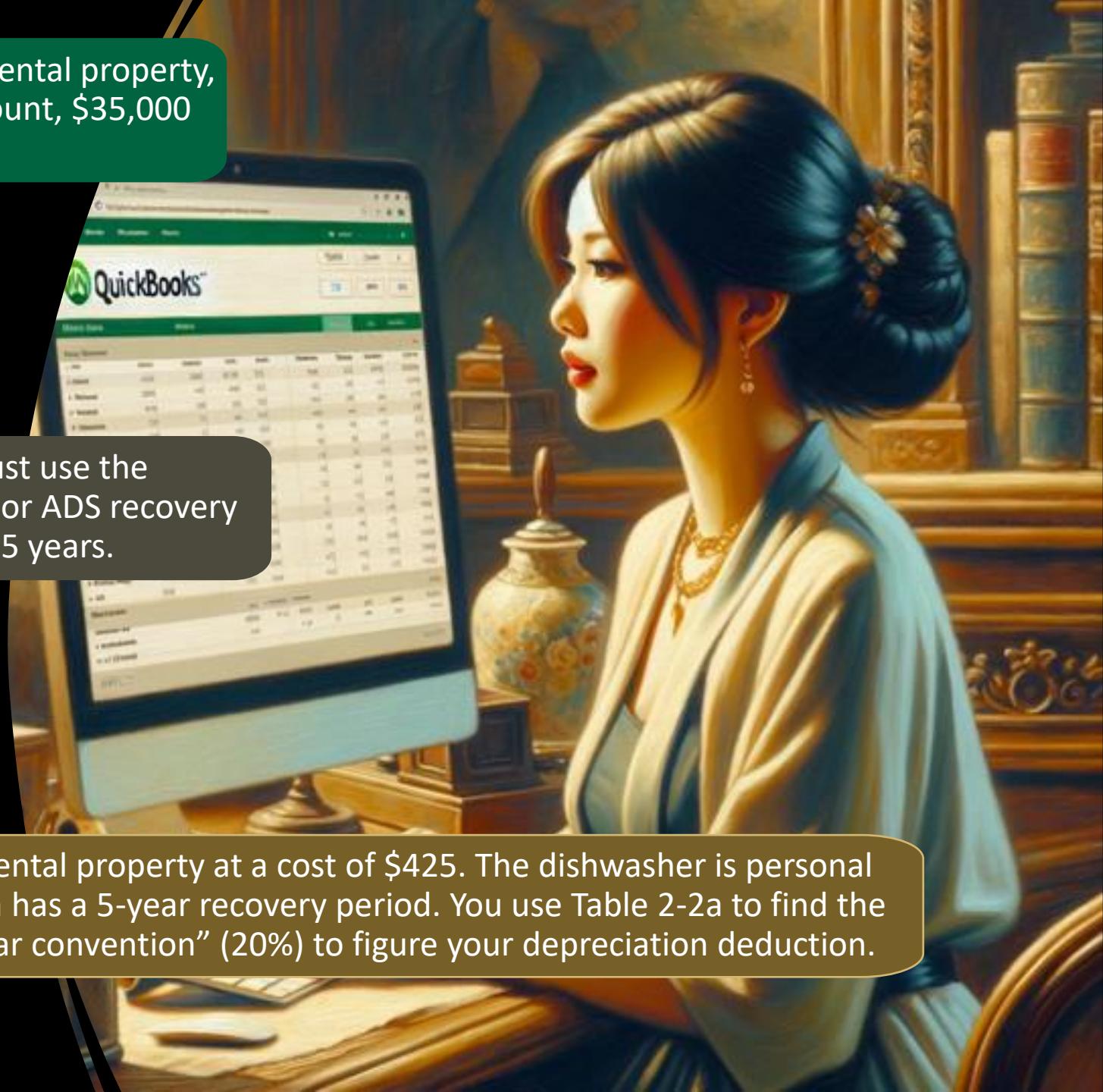
On February 1, when you changed your house to rental property, the property had an FMV of \$152,000. Of this amount, \$35,000 was for the land and \$117,000 was for the house.

Because your adjusted basis is less than the FMV on the date of the change, you use \$39,000 as your basis for depreciation.

As specified for residential rental property, you must use the straight line method of depreciation over the GDS or ADS recovery period. You choose the GDS recovery period of 27.5 years.

You use Table 2-2d to find your depreciation percentage. Because you placed the property in service in February, the percentage is 3.182%.

On April 1, you bought a new dishwasher for the rental property at a cost of \$425. The dishwasher is personal property used in a rental real estate activity, which has a 5-year recovery period. You use Table 2-2a to find the depreciation percentage for Year 1 under "Half-year convention" (20%) to figure your depreciation deduction.

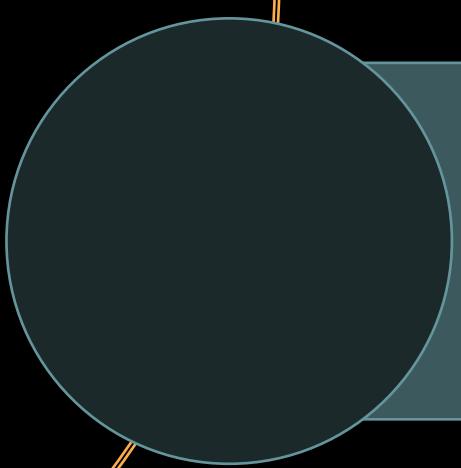
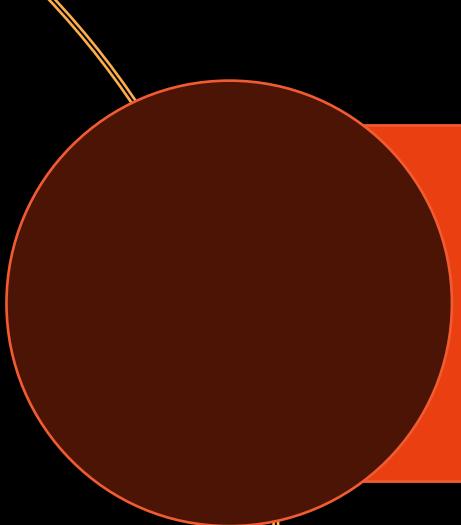
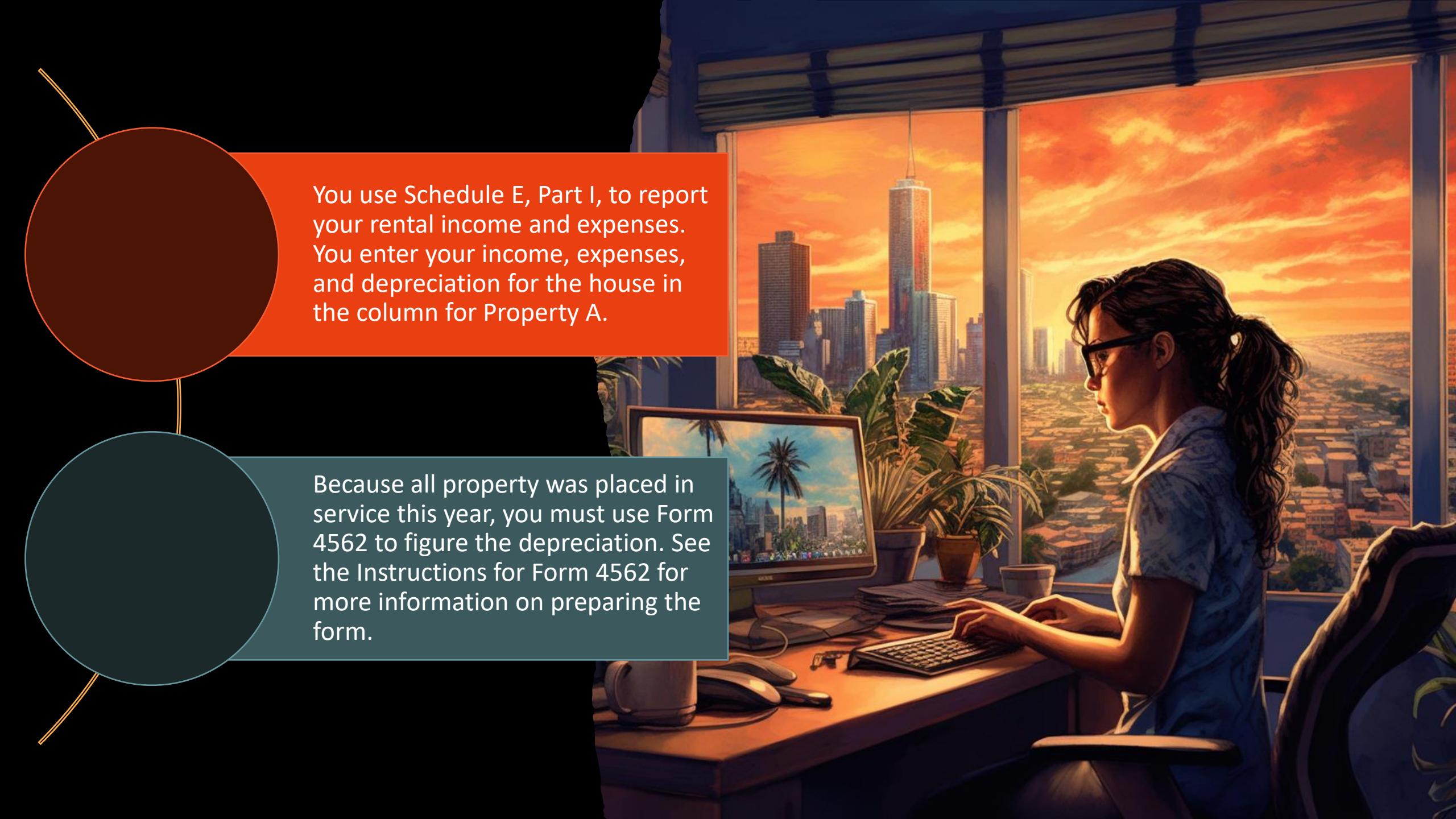




On May 1, you paid \$4,000 to have a furnace installed in the house. The furnace is residential rental property. Because you placed the property in service in May, the depreciation percentage from Table 2-2d is 2.273%.

You figured your net rental income or loss for the house as follows.

Total rental income received (\$750 × 11)	\$8,250
Minus: Expenses	
Mortgage interest (\$1,800 × 11/12)	\$1,650
Fire insurance (\$100 × 11/12)	92
Miscellaneous repairs	297
Real estate taxes (\$1,200 × 11/12)	1,100
Total expenses	<u>3,139</u>
Balance	\$5,111
Minus: Depreciation	
House (\$39,000 × 0.03182)	\$1,241
Dishwasher (\$425 × 0.20)	85
Furnace (\$4,000 × 0.02273)	91
Total depreciation	<u>1,417</u>
Net rental income for house	\$3,694



You use Schedule E, Part I, to report your rental income and expenses. You enter your income, expenses, and depreciation for the house in the column for Property A.

Because all property was placed in service this year, you must use Form 4562 to figure the depreciation. See the Instructions for Form 4562 for more information on preparing the form.



Personal Use of Dwelling Unit (Including Vacation Home)

If you have any personal use of a dwelling unit (including a vacation home) that you rent, you must divide your expenses between rental use and personal use.

In general, your rental expenses will be no more than your total expenses multiplied by a fraction, the denominator of which is the total number of days the dwelling unit is used and the numerator of which is the total number of days actually rented at a fair rental price.

Only your rental expenses may be deducted on Schedule E (Form 1040).

Some of your personal expenses may be deductible on Schedule A (Form 1040) if you itemize your deductions.

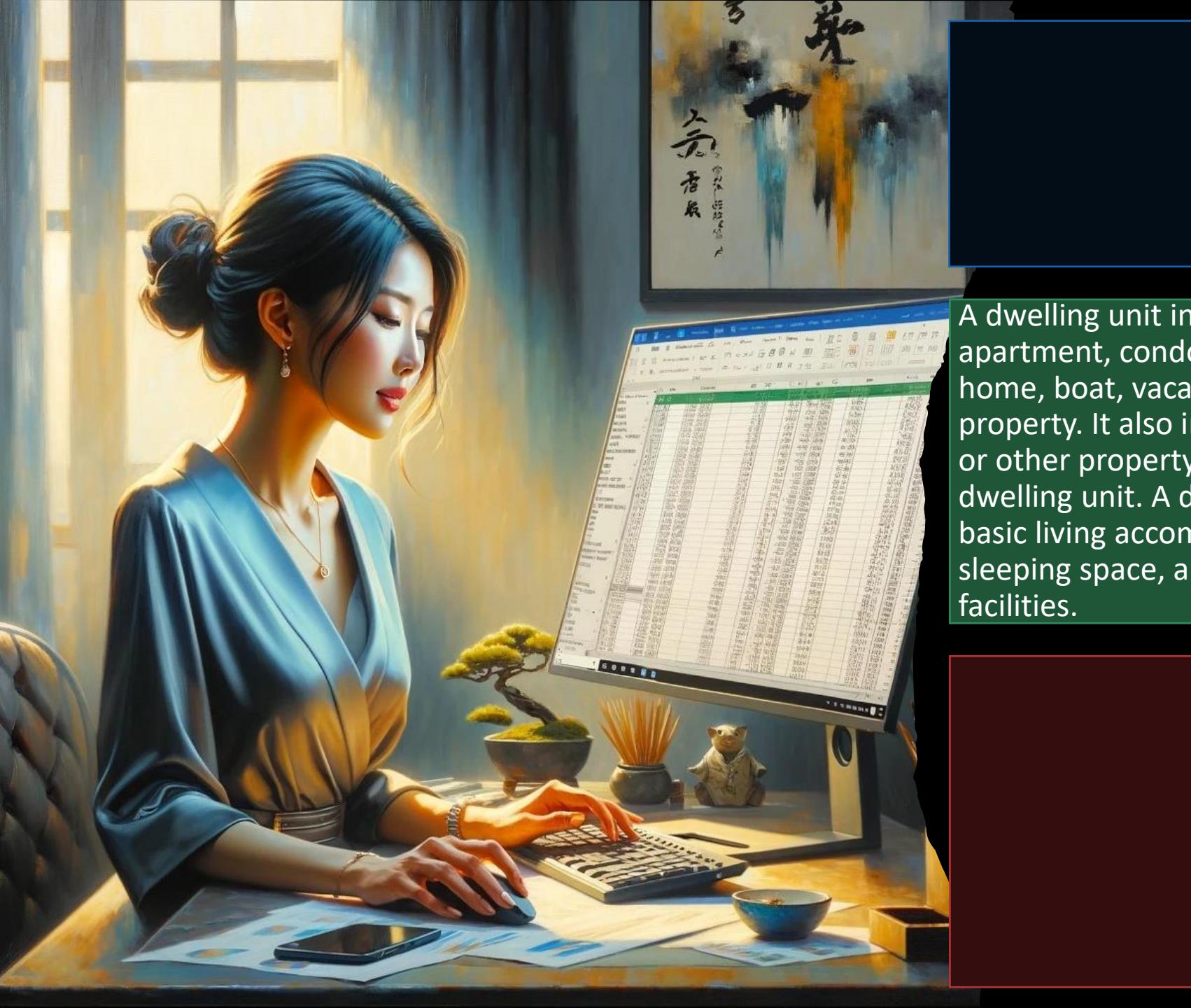
You must also determine if the dwelling unit is considered a home. The amount of rental expenses that you can de-duct may be limited if the dwelling unit is considered a home.

Whether a dwelling unit is considered a home depends on how many days during the year are considered to be days of personal use.

There is a special rule if you used the dwelling unit as a home and you rented it for less than 15 days during the year.



Dwelling unit.



A dwelling unit includes a house, apartment, condominium, mobile home, boat, vacation home, or similar property. It also includes all structures or other property belonging to the dwelling unit. A dwelling unit has basic living accommodations, such as sleeping space, a toilet, and cooking facilities.

A dwelling unit doesn't include property (or part of the property) used solely as a hotel, motel, inn, or similar establishment. Property is used solely as a hotel, motel, inn, or similar establishment if it is regularly available for occupancy by paying customers and isn't used by an owner as a home during the year.

Example.

You rent a room in your home that is always available for short-term occupancy by paying customers.

You don't use the room yourself and you allow only paying customers to use the room.

This room is used solely as a hotel, motel, inn, or similar establishment and isn't a dwelling unit.





Dividing Expenses

If you use a dwelling unit for both rental and personal purposes, divide your expenses between the rental use and the personal use based on the number of days used for each purpose. When dividing your expenses, follow these rules.

Any day that the unit is rented at a fair rental price is a day of rental use even if you used the unit for personal purposes that day. (This rule doesn't apply when determining whether you used the unit as a home.)

Any day that the unit is available for rent but not actually rented isn't a day of rental use.

Fair rental price.

A fair rental price for your property is generally the amount of rent that a person who isn't related to you would be willing to pay.

The rent you charge isn't a fair rental price if it is substantially less than the rents charged for other properties that are similar to your property in your area.

Ask yourself the following questions when comparing another property with yours.

Is it used for the same purpose?

Is it in approximately the same condition?

Is it in a similar location?

Is it approximately the same size?

Does it have similar furnishings?

If any of the answers are no, the properties probably aren't similar.





Example.

Your beach cottage was available for rent from June 1 through August 31 (92 days).

Except for the first week in August (7 days), when you were unable to find a renter, you rented the cottage at a fair rental price during that time.

The person who rented the cottage for July allowed you to use it over the weekend (2 days) without any reduction in or refund of rent.

Your family also used the cottage during the last 2 weeks of May (14 days). The cottage wasn't used at all before May 17 or after August 31.

You figure the part of the cottage expenses to treat as rental expenses as follows.

The cottage was used for rental a total of 85 days ($92 - 7$). The days it was available for rent but not rented (7 days) aren't days of rental use. The July weekend (2 days) you used it is rental use because you received a fair rental price for the weekend.

You used the cottage for personal purposes for 14 days (the last 2 weeks in May).

The total use of the cottage was 99 days (14 days personal use + 85 days rental use).

Your rental expenses are $85/99$ (86%) of the cottage expenses.





Note.

When determining whether you used the cottage as a home, the July weekend (2 days) you used it is considered personal use even though you received a fair rental price for the weekend.

Therefore, you had 16 days of personal use and 83 days of rental use for this purpose. Because you used the cottage for personal purposes more than 14 days and more than 10% of the days of rental use (8 days), you used it as a home.

If you have a net loss, you may not be able to deduct all of the rental expenses. See *Dwelling Unit Used as a Home* next.

Dwelling Unit Used as a Home

- If you use a dwelling unit for both rental and personal purposes, the tax treatment of the rental expenses you figured earlier under *Dividing Expenses* and rental income depends on whether you are considered to be using the dwelling unit as a home.





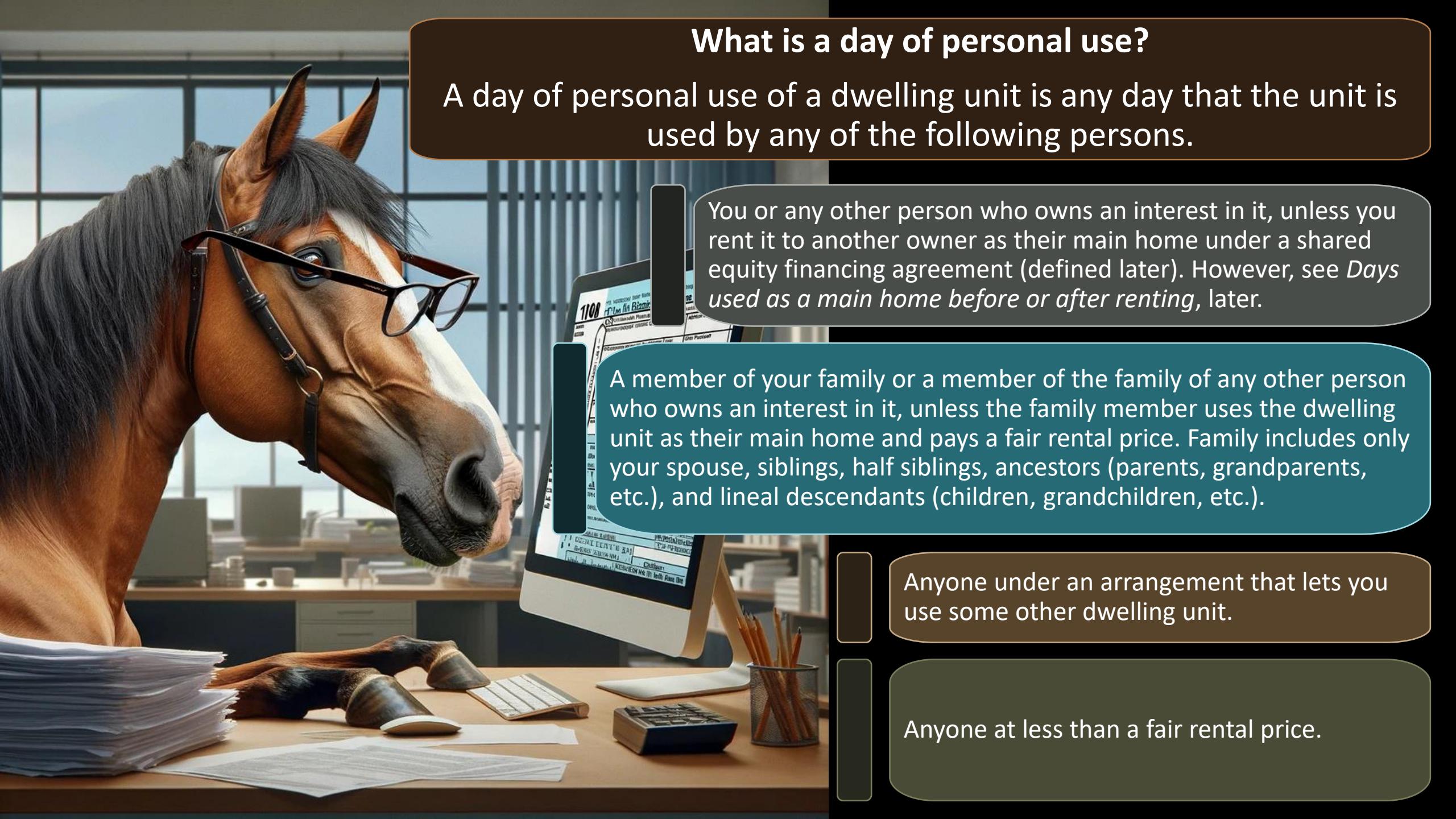
You use a dwelling unit as a home during the tax year if you use it for personal purposes more than the greater of:

14 days, or

10% of the total days it is rented to others at a fair rental price.

If a dwelling unit is used for personal purposes on a day it is rented at a fair rental price (discussed earlier), don't count that day as a day of rental use in applying (2) above. Instead, count it as a day of personal use in applying both (1) and (2) above.





What is a day of personal use?

A day of personal use of a dwelling unit is any day that the unit is used by any of the following persons.

You or any other person who owns an interest in it, unless you rent it to another owner as their main home under a shared equity financing agreement (defined later). However, see *Days used as a main home before or after renting*, later.

A member of your family or a member of the family of any other person who owns an interest in it, unless the family member uses the dwelling unit as their main home and pays a fair rental price. Family includes only your spouse, siblings, half siblings, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).

Anyone under an arrangement that lets you use some other dwelling unit.

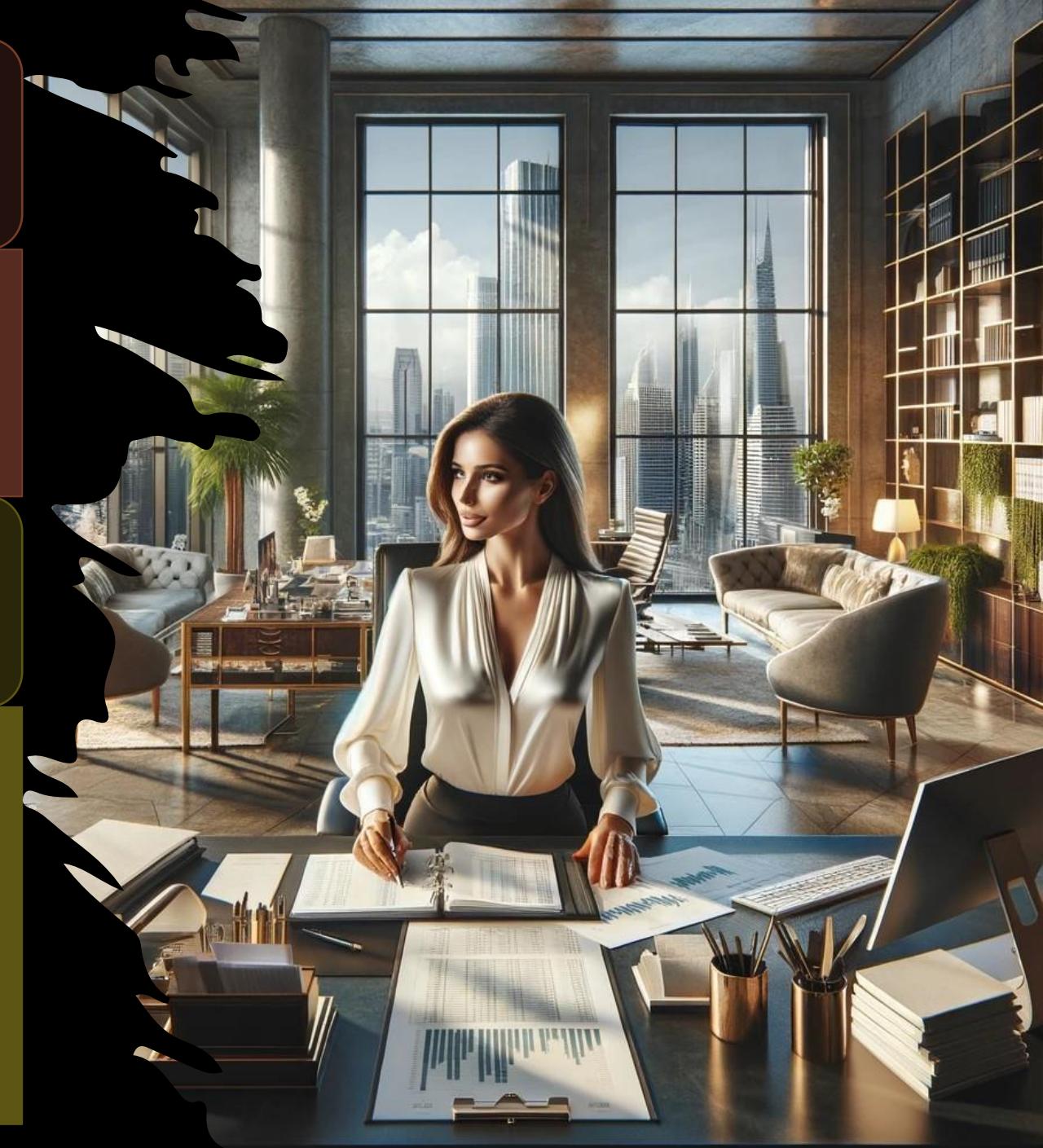
Anyone at less than a fair rental price.

Main home.

- If the other person or member of the family in (1) or (2) has more than one home, their main home are ordinarily the one they lived in most of the time.

Shared equity financing agreement.

- This is an agreement under which two or more persons acquire un-divided interests for more than 50 years in an entire dwelling unit, including the land, and one or more of the co-owners are entitled to occupy the unit as their main home upon payment of rent to the other co-owner(s).





Donation of use of the property.

You use a dwelling unit for personal purposes if:

You donate the use of the unit to a charitable organization,

The organization sells the use of the unit at a fundraising event, and

The “purchaser” uses the unit.

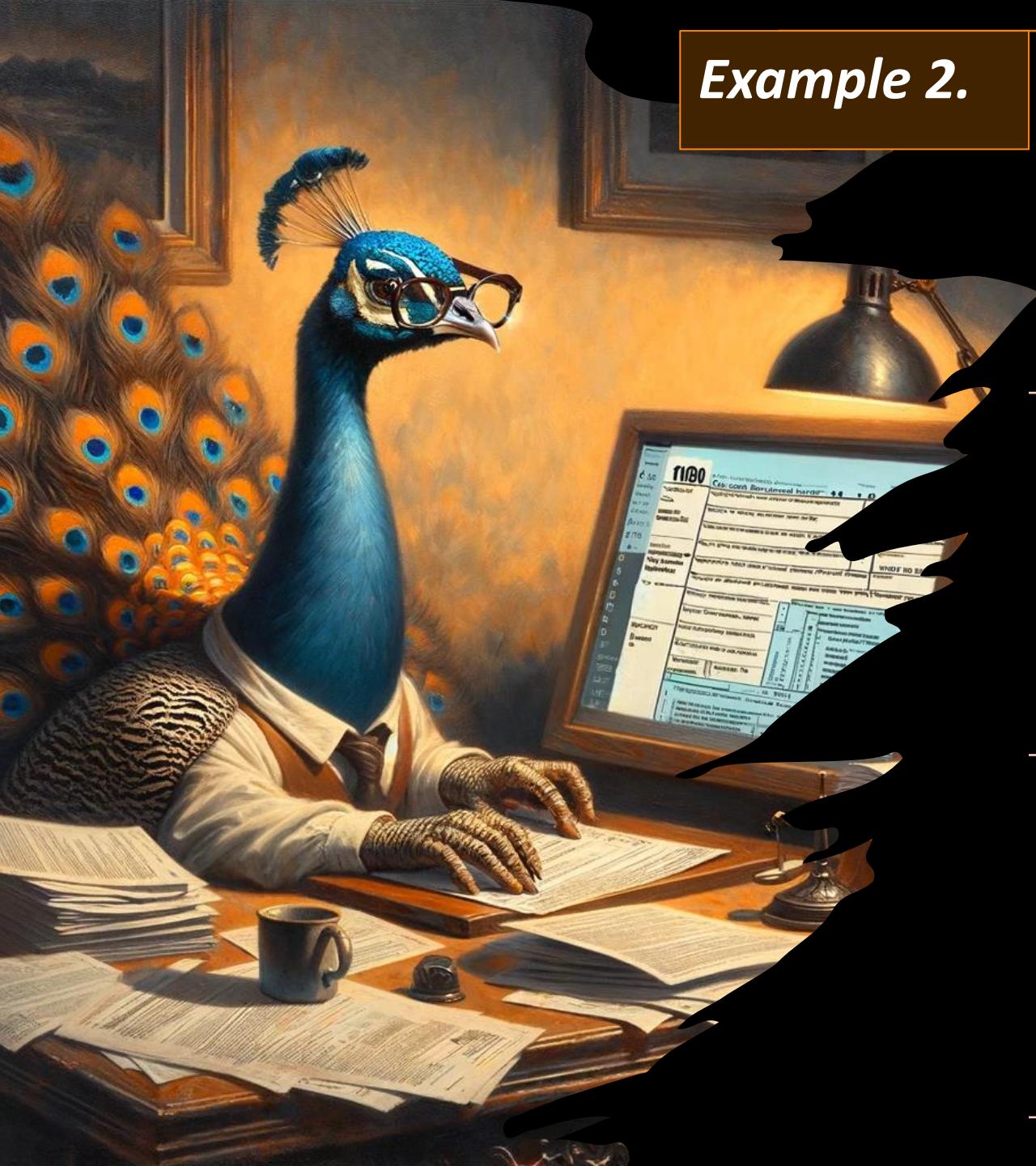
Example 1.

You and your neighbor are co-owners of a condominium at the beach. Last year, you rented the unit to vacationers whenever possible.

The unit wasn't used as a main home by anyone. Your neighbor used the unit for 2 weeks last year; you didn't use it at all.

Because your neighbor has an interest in the unit, both of you are considered to have used the unit for personal purposes during those 2 weeks.





Example 2.

You and your neighbors are co-owners of a house under a shared equity financing agreement. Your neighbors live in the house and pay you a fair rental price.

Even though your neighbors have an interest in the house, the days your neighbors live there aren't counted as days of personal use by you.

This is because your neighbors rent the house as their main home under a shared equity financing agreement.

Example 3.

You own a rental property that you rent to your son. Your son doesn't own any interest in this property. He uses it as his main home and pays you a fair rental price.

Your son's use of the property isn't personal use by you because your son is using it as his main home, he owns no interest in the property, and he is paying you a fair rental price.





Example 4.

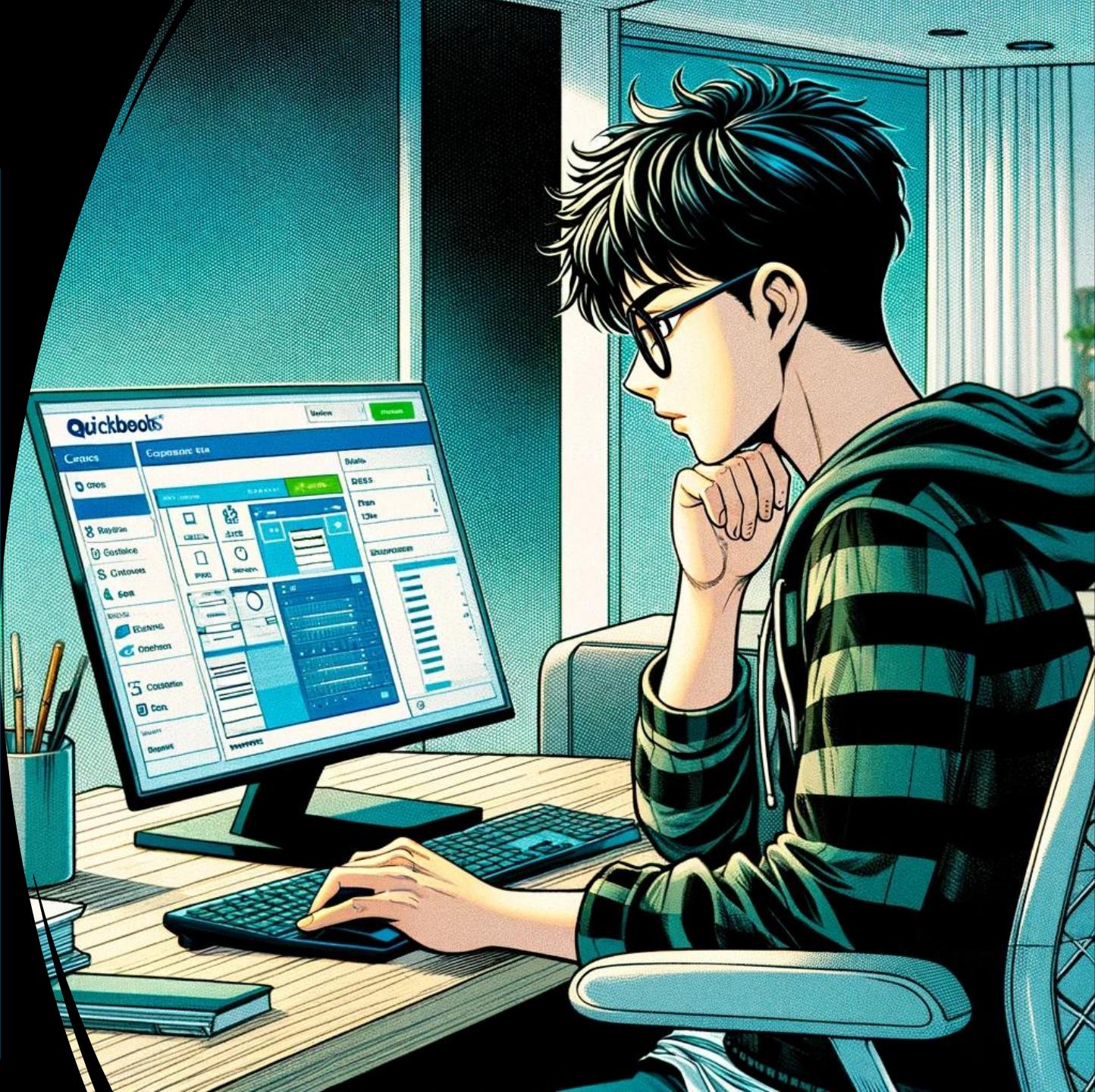
You rent your beach house to Rosa. Rosa rents her cabin in the mountains to you. You each pay a fair rental price.

You are using your beach house for personal purposes on the days that Rosa uses it because your house is used by Rosa under an arrangement that allows you to use her cabin.

Example 5.

You rent an apartment to your mother at less than a fair rental price.

You are using the apartment for personal purposes on the days that your mother rents it because you rent it for less than a fair rental price.





Days used for repairs and maintenance.

Any day that you spend working substantially full time repairing and maintaining (not improving) your property isn't counted as a day of personal use.

Don't count such a day as a day of personal use even if family members use the property for recreational purposes on the same day.

Example.

Corey owns a cabin in the mountains that he rents for most of the year. He spends a week at the cabin with family members.

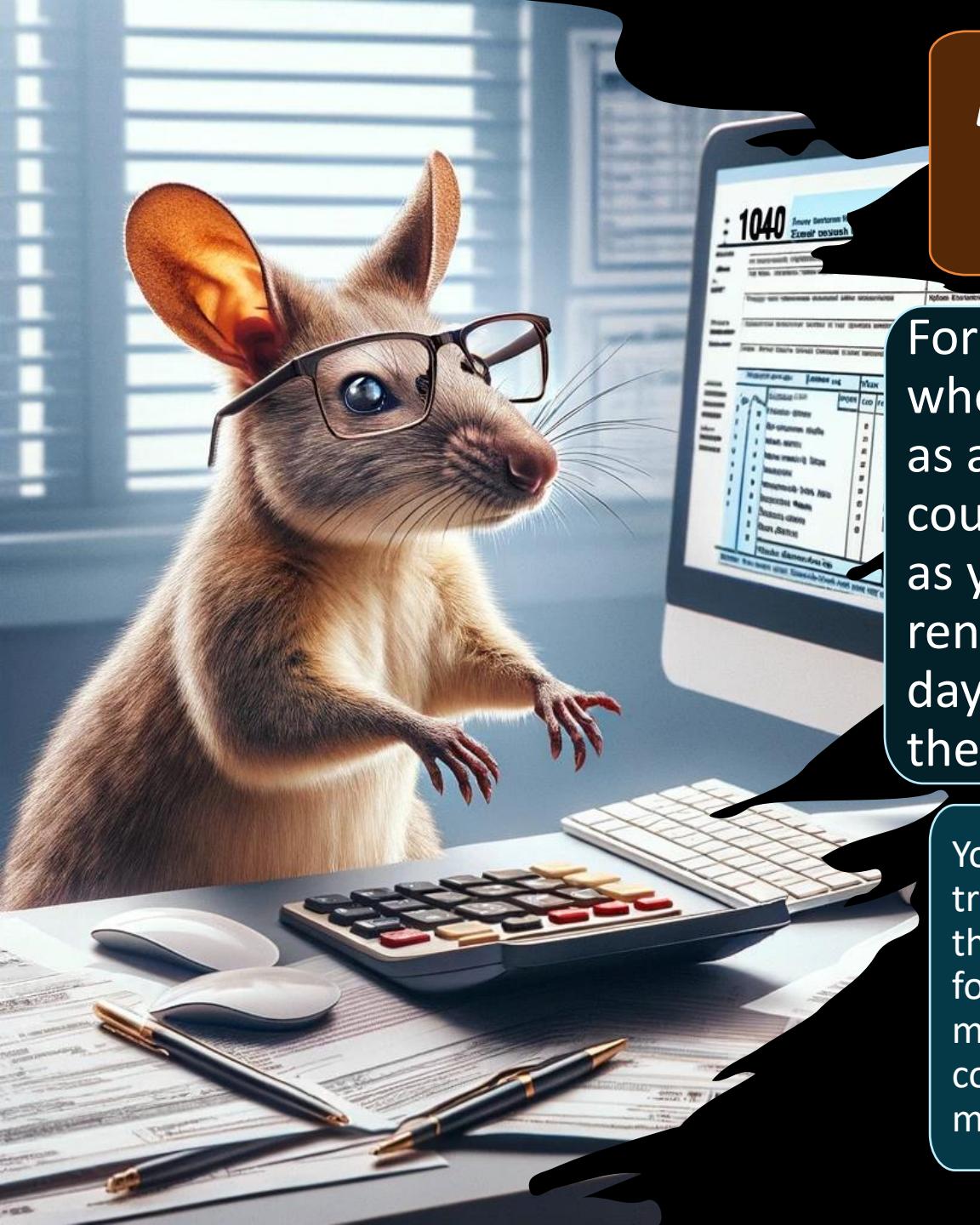
Corey works on maintenance of the cabin 3 or 4 hours each day during the week and spends the rest of the time fishing, hiking, and relaxing.

Corey's family members, however, work substantially full time on the cabin each day during the week.

The main purpose of being at the cabin that week is to do maintenance work.

Therefore, the use of the cabin during the week by Corey and his family won't be considered personal use by Corey.





Days used as a main home before or after renting.

For purposes of determining whether a dwelling unit was used as a home, you may not have to count days you used the property as your main home before or after renting it or offering it for rent as days of personal use. Don't count them as days of personal use if:

You rented or tried to rent the property for 12 or more consecutive months, or

You rented or tried to rent the property for a period of less than 12 consecutive months and the period ended because you sold or exchanged the property.

However, this special rule doesn't apply when dividing expenses between rental and personal use. See *Property Changed to Rental Use* in chapter 4.

Example 1.

On February 28, 2022, you moved out of the house you had lived in for 6 years because you accepted a job in another town. You rented your house at a fair rental price from March 15, 2022, to May 14, 2023 (14 months). On June 1, 2023, you moved back into your old house.

The days you used the house as your main home from January 1 to February 28, 2022, and from June 1 to December 31, 2023, aren't counted as days of personal use. Therefore, you would use the rules in chapter 1 when figuring your rental income and expenses.





Example 2.

On January 31, you moved out of the condominium where you had lived for 3 years.

You offered it for rent at a fair rental price beginning on February 1.

You were unable to rent it until April. On September 15, you sold the condominium.

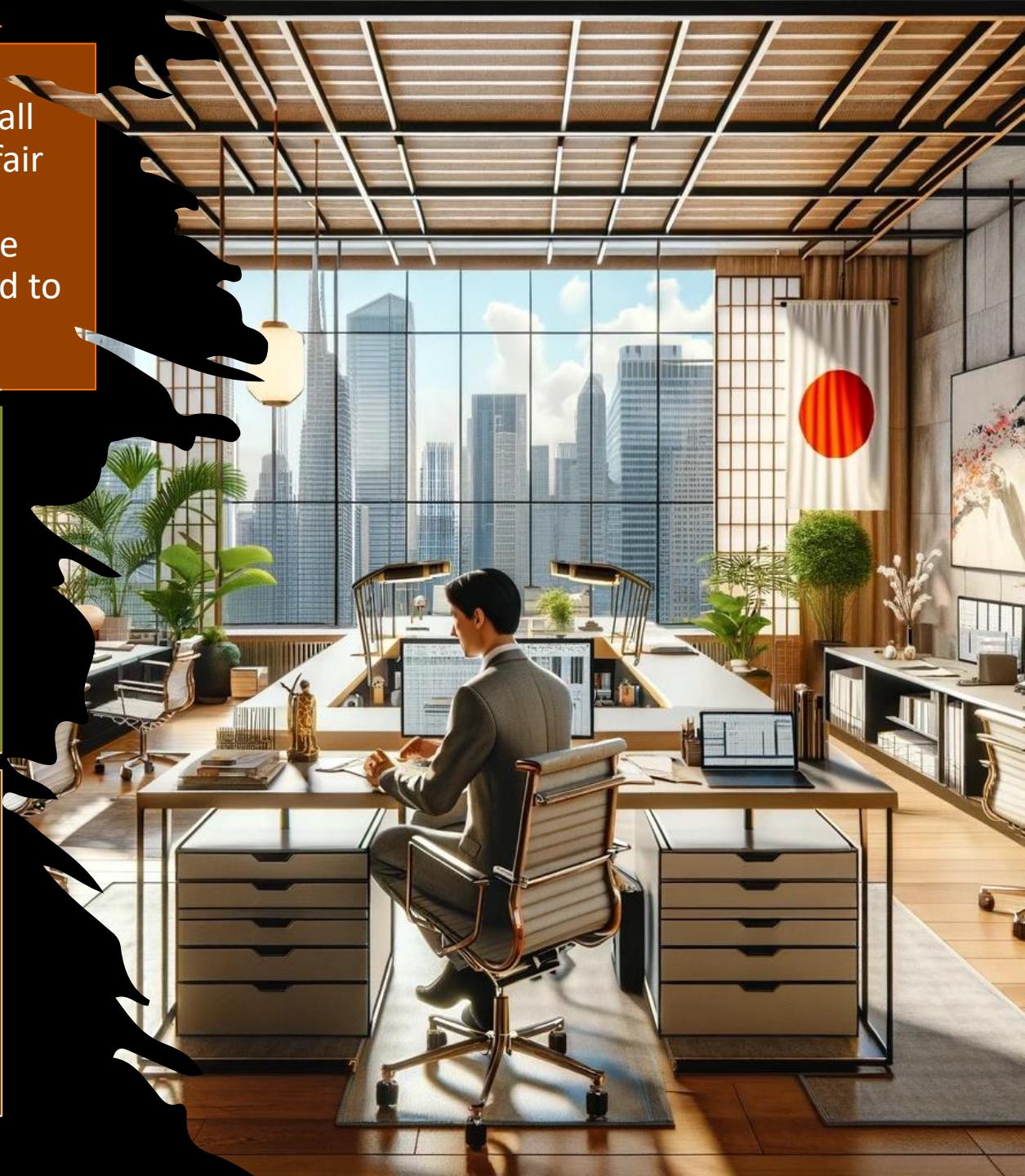
The days you used the condominium as your main home from January 1 to January 31 aren't counted as days of personal use when determining whether you used it as a home.

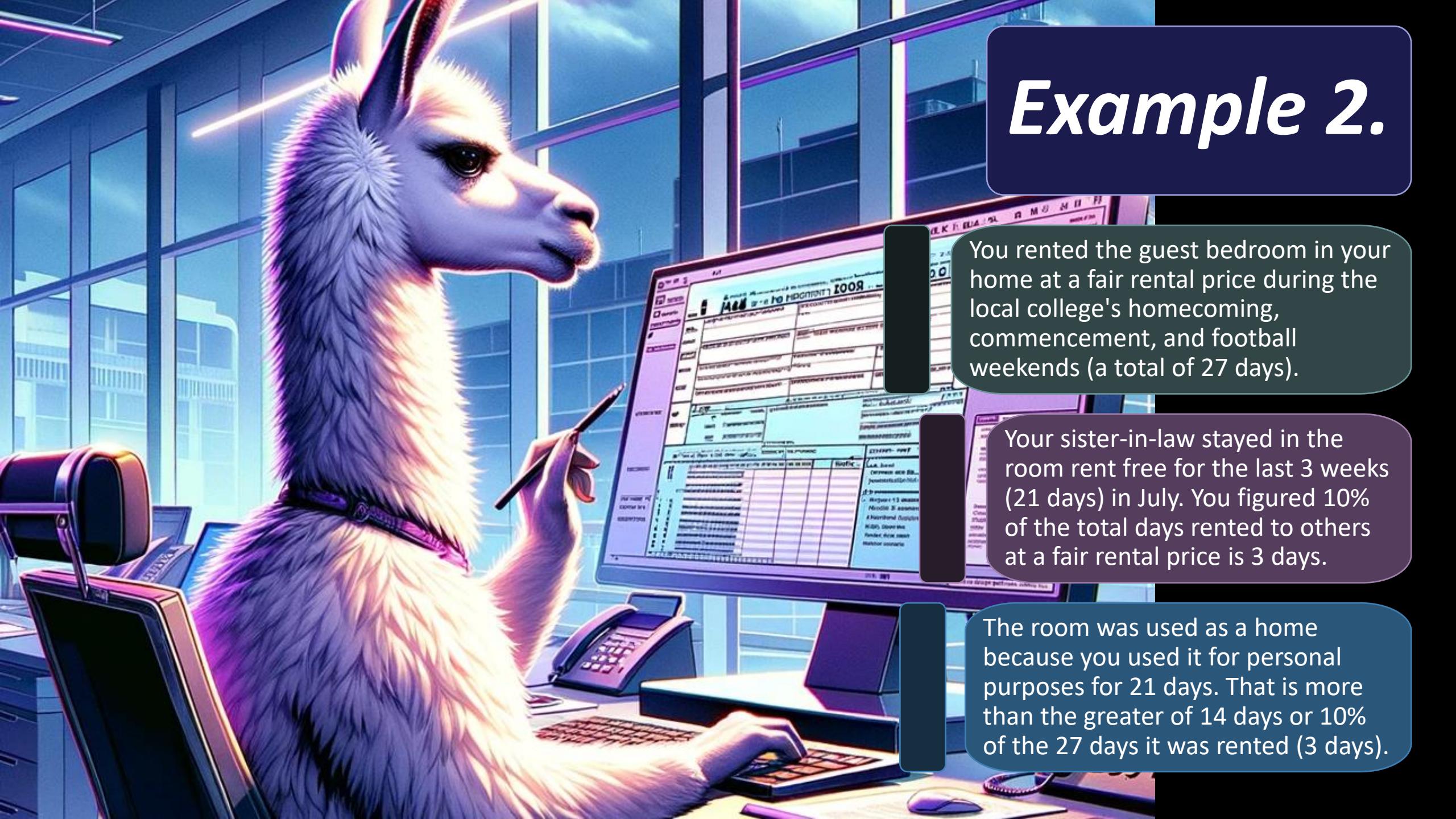
Example 1.

You converted the basement of your home into an apartment with a bedroom, a bathroom, and a small kitchen. You rented the basement apartment at a fair rental price to college students during the regular school year. You rented to them on a 9-month lease (273 days). You figured 10% of the total days rented to others at a fair rental price is 27 days.

During June (30 days), your brothers stayed with you and lived in the basement apartment rent free.

Your basement apartment was used as a home because you used it for personal purposes for 30 days. Rent-free use by your brothers is considered personal use. Your personal use (30 days) is more than the greater of 14 days or 10% of the total days it was rented (27 days).





Example 2.

You rented the guest bedroom in your home at a fair rental price during the local college's homecoming, commencement, and football weekends (a total of 27 days).

Your sister-in-law stayed in the room rent free for the last 3 weeks (21 days) in July. You figured 10% of the total days rented to others at a fair rental price is 3 days.

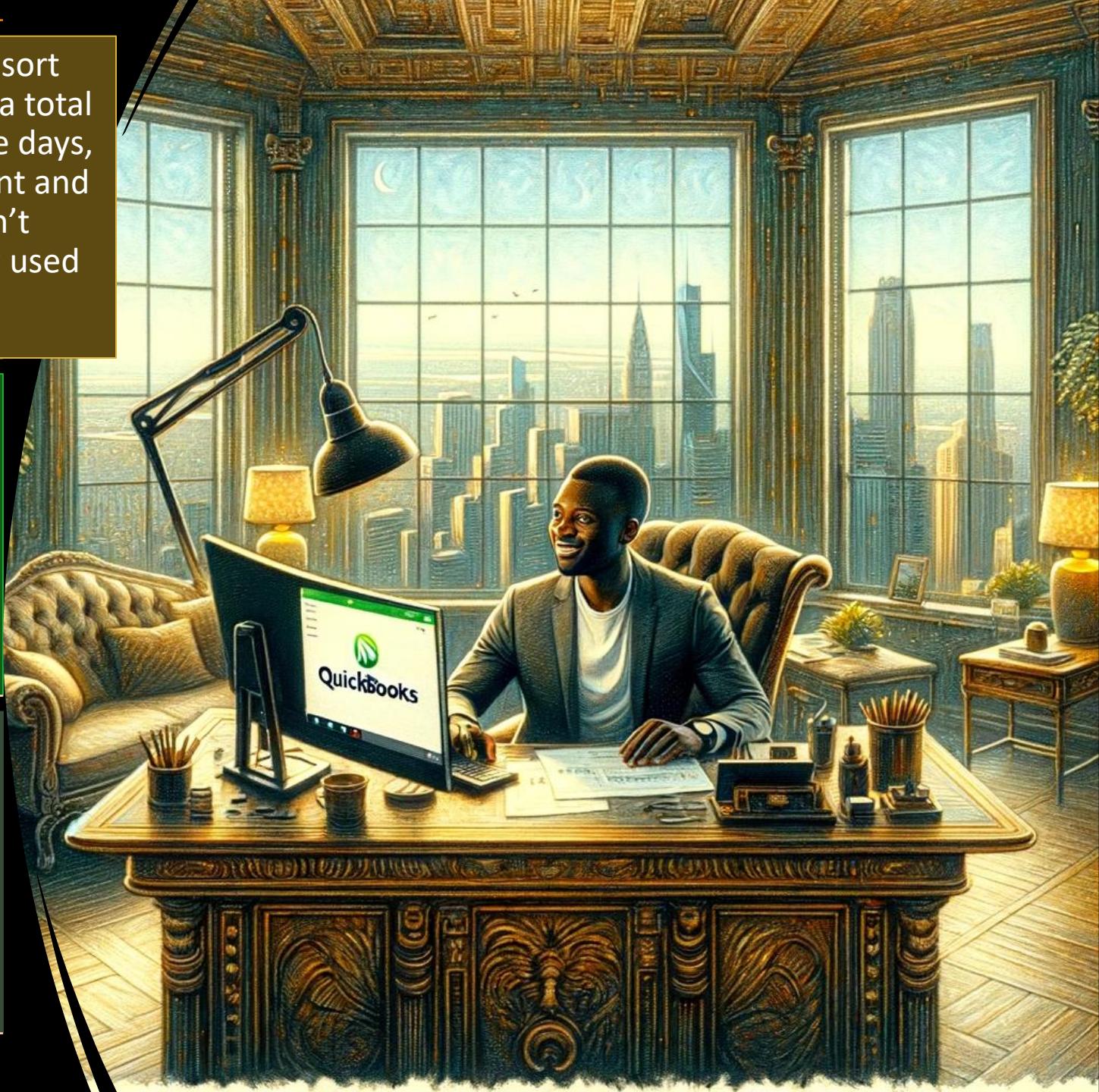
The room was used as a home because you used it for personal purposes for 21 days. That is more than the greater of 14 days or 10% of the 27 days it was rented (3 days).

**Example
3.**

You own a condominium apartment in a resort area. You rented it at a fair rental price for a total of 170 days during the year. For 12 of these days, the tenant wasn't able to use the apartment and allowed you to use it even though you didn't refund any of the rent. Your family actually used the apartment for 10 of those days.

Therefore, the apartment is treated as having been rented for 160 ($170 - 10$) days. You figured 10% of the total days rented to others at a fair rental price is 16 days. Your family also used the apartment for 7 other days during the year.

You used the apartment as a home because you used it for personal purposes for 17 days. That is more than the greater of 14 days or 10% of the 160 days it was rented (16 days).





- If you use the dwelling unit as a home and you rent it less than 15 days during the year, that period isn't treated as rental activity. See *Used as a home but rented less than 15 days*, later, for more information.

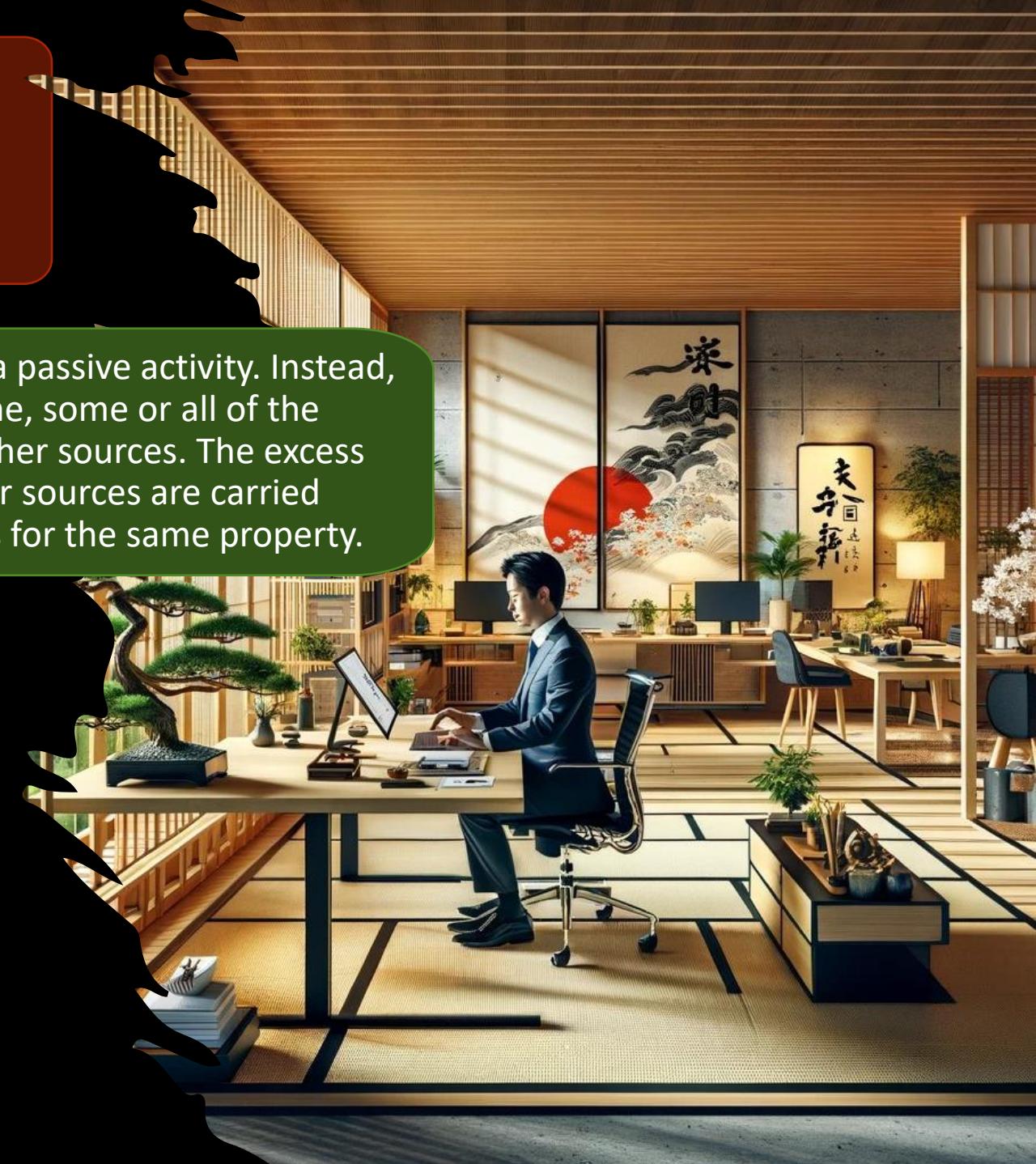
Minimal
rental use.

Limit on deductions.

Renting a dwelling unit that is considered a home isn't a passive activity. Instead, if your rental expenses are more than your rental income, some or all of the excess expenses can't be used to offset income from other sources. The excess expenses that can't be used to offset income from other sources are carried forward to the next year and treated as rental expenses for the same property.

Any expenses carried forward to the next year will be subject to any limits that apply for that year. This limitation will apply to expenses carried forward to another year even if you don't use the property as your home for that subsequent year.

To figure your deductible rental expenses for this year and any carryover to next year, use Worksheet 5-1.





Reporting Income and Deductions

Property not used for personal purposes.

If you don't use a dwelling unit for personal purposes, see chapter 3 for how to report your rental income and expenses.

Property used for personal purposes.

If you do use a dwelling unit for personal purposes, then how you report your rental income and expenses depends on whether you used the dwelling unit as a home.

Not used as a home.

If you use a dwelling unit for personal purposes, but not as a home, report all the rental income in your income.

Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*.

The expenses for personal use aren't deductible as rental expenses.

Your deductible rental expenses can be more than your gross rental income; however, see *Limits on Rental Losses* in chapter 3.





Used as a home but rented less than 15 days.

If you use a dwelling unit as a home and you rent it less than 15 days during the year, its primary function isn't considered to be rental and it shouldn't be reported on Schedule E (Form 1040).

You aren't required to report the rental income and rental expenses from this activity.

Any expenses related to the home, such as mortgage interest, property taxes, and any qualified casualty loss, will be reported as normally allowed on Schedule A (Form 1040).

See the Instructions for Schedule A for more information on deducting these expenses.

Used as a home and rented 15 days or more.

If you use a dwelling unit as a home and rent it 15 days or more during the year, include all your rental income in your in-come. Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*. The expenses for personal use aren't deductible as rental expenses.

If you had a net profit from renting the dwelling unit for the year (that is, if your rental income is more than the total of your rental expenses, including depreciation), deduct all of your rental expenses. You don't need to use Worksheet 5-1.

However, if you had a net loss from renting the dwelling unit for the year, your deduction for certain rental expenses is limited. To figure your deductible rental expenses and any carryover to next year, use Worksheet 5-1.

