You Are Probably Paying Too Much In Taxes On Your Rental Income.

No landlord would pay more than necessary for utilities or other operating expenses for a rental property. But, every year, millions of landlords pay more taxes on their rental income than they have to. Why? Because they fail to take advantage of all the tax deductions available for owners of rental property.

Rental real estate provides more tax benefits than almost any other investment. Often, these benefits make the difference between losing money and earning a profit on a rental property. But tax deductions are worthless if you don't take advantage of them. Here are the top ten tax deductions for owners of small residential rental property.

- Interest. Interest is often a landlord's single biggest deductible expense. Common examples of interest that landlords can deduct include mortgage interest payments on loans used to acquire or improve rental property and interest on credit cards for goods or services used in a rental activity.
- Depreciation. The actual cost of a house, apartment building, or other rental property is not fully deductible in the year in which you pay for it. Instead, landlords get back the cost of real estate through depreciation. This involves deducting a portion of the cost of the property over several years. Residential rental property must be depreciated over 27.5 years.
- Repairs. The cost of repairs to rental property (provided the repairs are ordinary, necessary, and reasonable in amount) are fully deductible in the year in which they are incurred. Good examples of deductible repairs include repainting, fixing gutters or floors, fixing leaks, plastering, and replacing broken windows.
- Local travel. Landlords are entitled to a tax deduction whenever they drive anywhere for their rental activity. For example, when you drive to your rental building to deal with a tenant complaint or go to the hardware store to purchase a part for a repair, you can deduct your travel expenses.
- If you drive a car, SUV, van, pickup, or panel truck for your rental activity (as most landlords do), you have two options for deducting your vehicle expenses: You can deduct your actual expenses (gasoline, upkeep, repairs) or you can use the standard mileage rate (48.5 cents per mile in 2007; 44.5 cents per mile in 2006). To qualify for the standard mileage rate, you must use the standard mileage method the first year you use a car for your business activity. Moreover, you can't use the standard mileage rate if you have claimed accelerated depreciation deductions in prior years, or have taken a Section 179 deduction for the vehicle.
- Long distance travel. If you travel overnight for your rental activity, you can deduct your airfare, hotel bills, meals, and other expenses. If you plan your trip carefully, you can even mix landlord business with pleasure and still take a deduction. However, IRS auditors closely scrutinize deductions for overnight travel -- and many taxpayers get caught claiming these deductions without proper records to back them up. To stay within the law (and avoid unwanted attention from the IRS), you need to properly document your long distance travel expenses.
- Home office. Provided they meet certain minimal requirements, landlords may deduct their home office expenses from their taxable income. This deduction applies not only to space

devoted to office work, but also to a workshop or any other home workspace you use for your rental business. This is true whether you own your home or apartment or are a renter. For the ins and outs on taking the home office deduction, see Home Business Tax Deductions, by attorney Stephen Fishman (Nolo), or Every Landlord's Tax Deduction Guide, also by attorney Stephen Fishman (Nolo).

- Employees and independent contractors. Whenever you hire anyone to perform services for your rental activity, you can deduct their wages as a rental business expense. This is so whether the worker is an employee (for example, a resident manager) or an independent contractor (for example, a repair person).
- Casualty and theft losses. If your rental property is damaged or destroyed from a sudden event like a fire or flood, you may be able to obtain a tax deduction for all or part of your loss. These types of losses are called "casualty" losses. You usually won't be able to deduct the entire cost of property damaged or destroyed by a casualty. How much you may deduct depends on how much of your property was destroyed and whether the loss was covered by insurance.
- Insurance. You can deduct the premiums you pay for almost any insurance for your rental activity. This includes fire, theft, and flood insurance for rental property, as well as landlord liability insurance. And if you have employees, you can deduct the cost of their health and workers' compensation insurance.
- Legal and professional services. Finally, you can deduct fees that you pay to attorneys, accountants, property management companies, real estate investment advisors, and other professionals. You can deduct these fees as operating expenses as long as the fees are paid for work related to your rental activity.

Did You Know?

- Landlords can greatly increase the depreciation deductions they receive the first few years they own rental property by using "segmented" depreciation.
- Careful planning can permit you to deduct, in a single year, the cost of improvements to rental property that you would otherwise have to deduct over 27.5 years.
- You can rent out a vacation home tax-free, in some cases.
- Most small landlords can deduct up to $25,000 in rental property losses each year.
- A special tax rule permits some landlords to deduct 100% of their rental property losses every year, no matter how much.
- People who rent property to their family or friends can lose virtually all of their tax deductions.
- If you didn't know one or more of these facts, you could be paying far more tax than you need to. For more information, see Every Landlord's Tax Deduction Guide, by attorney Stephen Fishman (Nolo).