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REAL ESTATE LOSS LIMITATION RULES

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If you are thinking about purchasing a rental house to save on taxes, there are many limitations to keep in mind.

1. You are allowed to deduct up to $25,000 in losses annually if you have "active participation". Active participation means that you make most of the management decisions. If you use a property management firm to handle most of the decisions, you may not active.

2. The $25,000 loss limitation is further limited if your income is over $100,000 (MFJ) and is completely removed if your income is over $150,000.

3. Losses from rental property can offset other passive income annually even if you are not actively involved.

4. Even if the losses are limited on an annual basis, they can always be deducted when the rental property is sold.

5. If you can be treated as a "real estate professional" all losses can be deducted annually against even "non-passive" income such as wages and interest. To be considered a real estate professional, you must spend more than 50% of your working hours in real estate and those real estate hours must total more than 750 in a year.

Obviously, the above summary is a very simplified approach to these rules. If you are thinking of purchasing a rental property, please call us so we can determine how these rules fit into your situation and how the losses (or income) would affect your overall tax situation.