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7 Important Facts You Must Know About Rental Income Tax

If you own property and collect rental income from them, this is something the IRS wants you to know. These 7 facts also cover rental expenses and what you should do about them.

1. Rental income is any payment you receive as a result of the use or occupation of a property that you own. Rental income must be included in your gross income and reported in the year you receive it.
2. Security deposits are not counted as income because you would return it to your tenant at the end of the lease. But if you forfeit all or part of the security deposit because your tenant did not fulfill his or her obligations under the lease, then you have to include this into your income in the year you receive it.
3. If you receive advanced rental (rental that pays for a period ahead of time), then you must declare this as part of your income in the year it is received regardless of the period the rental covers.
4. If you receive property or services in lieu of money for rent, you should calculate the fair market value of such property or service and include this

amount with your income. If the value of property or services has been agreed upon, then this value is the fair market value to include with your income unless the agreed upon income is clearly inaccurate.

5. If your tenant pays any expenses, such expenses are deemed as income to you and you must declare them as such. However, you can deduct them as expenses if they fall under the category of deductible rental expenses.

Publication 527 Rental Expenses cover this aspect in greater detail.

6. Deductible rental expenses are defined as expenses incurred as a result of renting out your property. These include taxes, insurance, maintenance, interests, outgoings and the like. These expenses can be deducted from your gross rental income and you generally do so in the year you pay for these expenses.

7. If you make use of your own property that you rent out, say as a holiday home, you must divide your expenses between rental expenses and personal expenses. If your expenses for rental use are higher than your rental income, you may not be able to deduct all of the rental expenses.

If you need more information on rental income and expenses, refer to Publication 527 which you can download from the IRS website, www.irs.gov or call 800-TAX-FORM.