

RETIRE RIGHT
FINANCIAL PLANNING



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    Q1[Do you rent out your property more than 14 days per year?] -- No --> A1[It is considered a Personal-Use Property.]
    A1 --> B1[You do not need to report any rental income on your tax return. No rental expense deductions are allowed. Itemized deductions may be allowed, if applicable.]
    Q1 -- Yes --> Q2[Does your personal use in the property exceed the greater of: (1) 14 days or (2) 10% of the days you rent out your property at fair market rates?]
    Q2 -- Yes --> A2[It is considered a Mixed-Use Property.]
    A2 --> B2[Report all rental income on the appropriate schedule of your tax return. Qualified rental expense deductions and itemized deductions (if applicable) must be allocated proportionally between rental vs. personal use.]
    Q2 -- No --> Q3[Do you spend more than 750 hours per year working in real estate activities, and are those hours greater than 50% of all hours (at all jobs) you work in a year?]
    Q3 -- No --> Q4[Do you have any unused rental expense deductions in the current tax year or suspended Passive Activity Losses (PALs) from prior tax years?]
    Q4 -- No --> B3[Any positive net rental income will be taxed as ordinary income for the current tax year. The additional 3.8% net investment income tax (NIIT) may apply. A QBI deduction may also apply, depending on your situation.]
    Q4 -- Yes --> B4[You may be allowed a special allowance of up to $25,000 (if MAGI is below $100,000) of passive activity losses that may be used to offset ordinary income. Allowance phases out between the MAGI range of $100,000 to $150,000.]
    Q3 -- Yes --> Q5[Do you successfully meet the "Material Participation" criteria and "Real Estate Professional" (REP) status as defined for tax purposes?]
    Q5 -- No --> A3[It is considered a Rental Property (Passive Activity).]
    A3 --> B5[Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.]
    Q5 -- Yes --> A4[It is considered a Rental Property (Non-Passive Activity).]
    A4 --> B6[Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.]
    B5 --> Q6[Do you successfully meet the "Active Participation" test as defined for tax purposes (own at least 10% of the property and make management decisions)?]
    Q6 -- No --> B7[No losses are allowed this tax year. Unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs). Consider employing AGI/MAGI reduction techniques if it makes sense for your financial situation.]
    Q6 -- Yes --> Q7[Is your MAGI under $150,000?]
    Q7 -- No --> B7
    Q7 -- Yes --> B4
    B3 --> B8[Any unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs), and can be used to offset other passive activity income in future tax years. No losses against ordinary income are allowed for this tax year.]
    B8 --> B9[If there's still time left in the year, you may be able to change the classification of your property. Renting it out more (and reducing personal use) may enable you to deduct more expenses against your rental property.]
  
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Flowchart for Determining the Tax Treatment of Rental Property:

- Do you rent out your property more than 14 days per year?**
 - No:** It is considered a **Personal-Use Property**. You do not need to report any rental income on your tax return. No rental expense deductions are allowed. Itemized deductions may be allowed, if applicable.
 - Yes:** Proceed to Question 2.
- Does your personal use in the property exceed the greater of: (1) 14 days or (2) 10% of the days you rent out your property at fair market rates?**
 - Yes:** It is considered a **Mixed-Use Property**. Report all rental income on the appropriate schedule of your tax return. Qualified rental expense deductions and itemized deductions (if applicable) must be allocated proportionally between rental vs. personal use.
 - No:** Proceed to Question 3.
- Do you spend more than 750 hours per year working in real estate activities, and are those hours greater than 50% of all hours (at all jobs) you work in a year?**
 - No:** Proceed to Question 4.
 - Yes:** Proceed to Question 5.
- Do you successfully meet the "Material Participation" criteria and "Real Estate Professional" (REP) status as defined for tax purposes?**
 - No:** It is considered a **Rental Property (Passive Activity)**. Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.
 - Yes:** It is considered a **Rental Property (Non-Passive Activity)**. Report all rental income and qualified rental expenses on the appropriate schedule of your tax return.
- Do you successfully meet the "Active Participation" test as defined for tax purposes (own at least 10% of the property and make management decisions)?**
 - No:** No losses are allowed this tax year. Unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs). Consider employing AGI/MAGI reduction techniques if it makes sense for your financial situation.
 - Yes:** Proceed to Question 7.
- Is your MAGI under \$150,000?**
 - No:** No losses are allowed this tax year. Unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs). Consider employing AGI/MAGI reduction techniques if it makes sense for your financial situation.
 - Yes:** Proceed to Question 4.
- Do you have any unused rental expense deductions in the current tax year or suspended Passive Activity Losses (PALs) from prior tax years?**
 - No:** Any positive net rental income will be taxed as ordinary income for the current tax year. The additional 3.8% net investment income tax (NIIT) may apply. A QBI deduction may also apply, depending on your situation.
 - Yes:** You may be allowed a special allowance of up to \$25,000 (if MAGI is below \$100,000) of passive activity losses that may be used to offset ordinary income. Allowance phases out between the MAGI range of \$100,000 to \$150,000.
- Any unused deductions may be carried forward indefinitely as suspended Passive Activity Losses (PALs), and can be used to offset other passive activity income in future tax years. No losses against ordinary income are allowed for this tax year.**
- If there's still time left in the year, you may be able to change the classification of your property. Renting it out more (and reducing personal use) may enable you to deduct more expenses against your rental property.**