

Tax Strategies for Landlords

continued from page 10

on one car and 20 percent on another? That would mean a deduction of more than you could get from just one car.

Remember, it's not the amount of time you drove, which is always 100 percent, that matters, but the amount of mileage or usage of each vehicle for business that matters. For example, if you drove vehicle one 10,000 miles during 2009 and 9,000 of those miles were for business, that would mean you could deduct 90 percent of the mileage or costs. Also suppose you drove vehicle two for 10,000 miles, but only 2,000 of those miles was for business. You could deduct 20 percent of the mileage or costs.

Figure it out for yourself. Add up all the car expenses and compare 11,000 miles on one car to 11,000 miles on two cars. Make sure to include gas and oil, insurance, repairs and maintenance, licenses, and depreciation. You'll be amazed.

Strategy Two— Deduct the larger of the actual expense deduction or the IRS optional mileage rate deduction. Figure it both ways and take the one that allows you to deduct the most money.

Strategy Three— Identify supplies and equipment used to maintain your business car. Take a trip through your garage and basement (or wherever you store tools and cleaning supplies). Make a list of the items you use on your car. You will probably find a battery charger, battery cables, and maybe even a battery tester. Look some more, how about a tire pump, a vise, a buffer, and a sander. Looking even farther, you get to the tools such as screwdrivers, pliers, and wrenches.

If an item has an original cost of over \$100, capitalize and depreciate it according to the schedule (many times five years) the IRS has set up. If it is less than \$100, it is normal to expense the item in the year you purchased it.

Chances are you won't have receipts for all this, but you can take pictures of them as a reasonable substitute evidence. Incidentally, what you don't use on your car, you may use for your rental property business, deduct them using the same plan. Some items you will use both on your business vehicles and on your rental properties, adding the potential for even more deductions.

Records You Need to Keep

1. All papers relating to the purchase of the property including closing statements and contracts.

2. Any improvements you make after you buy the property.

3. Property tax statements before and after you bought the property. In addition, make sure, if the tax statement doesn't already, that you break out the land value from the structure value.

4. Any amortization statements relating to the purchase.

5. A list of tools and equipment you buy to maintain your properties.

6. Any blueprints a previous owner can give you.

If You Are Audited

The IRS will verify income and expense. As mentioned above, have a rent schedule and a receipt book showing who paid, when and how much.

The IRS will ask the following questions:

1. Did you rent to a relative? If you did, did you collect close to fair market rent? If the rent was too low, the IRS could limit your losses. (See a tax advisor.)

2. If you bought rentals during a year the IRS is auditing, they will want purchase papers and will ask if you made it available for rent immediately after you bought it.

3. If you made repairs before you put the house up for rent, the IRS will not let you deduct any of the costs of repairs. To immediately qualify for deductions, run an ad the day you buy the property. Try to get a renter for it while you are making repairs. They don't have to move in, they just have to agree to move in.

4. The IRS will see if you expensed rather than capitalized major repairs. For example, if you completely re-roofed the property, you might have expensed it when the rules say you have to depreciate it over 27 ½ years for residential property. If you just patched, or put on half a roof, though, you can expense it.

Printed in the RHAGP Update with permission from Bluestone & Hockley Real Estate Services www.bluestonehockley.com or phone 503-222-3800. From the December 2009 Rental Property Reporter (paid subscriptionnewsletter)