



National Association
of Tax Professionals

Schedule E

Not just for rentals anymore!

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What Goes on Schedule E?

- Rentals
 - For profit
 - Not for profit – income reported on Line 21, Form 1040 and expenses on Schedule A
 - Vacation and short term rentals
 - Commercial and land rentals
- Royalties
- Partnership income and losses
 - Both passive and non-passive
- S-Corporation income and losses
 - Both passive and non-passive

What goes on Schedule E?

- Estate and trust income and losses
 - Both passive and non-passive
- REMICs income and losses
- Certain farm income and losses
 - Form 4835
 - Landowner or sub-lessor and no material participation
- Reconciliations
 - Farmers and fisherman
 - Real estate professionals

**SCHEDULE E
(Form 1040)**

Department of the Treasury
Internal Revenue Service (99)

Name(s) shown on return

Supplemental Income and Loss

(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

▶ Attach to Form 1040, 1040NR, or Form 1041.

▶ Information about Schedule E and its separate instructions is at www.irs.gov/schedulee.

OMB No. 1545-0074

2014

Attachment
Sequence No. **13**

Your social security number

Part I **Income or Loss From Rental Real Estate and Royalties** **Note.** If you are in the business of renting personal property, use **Schedule C** or **C-EZ** (see instructions). If you are an individual, report farm rental income or loss from **Form 4835** on page 2, line 40.

A Did you make any payments in 2014 that would require you to file Form(s) 1099? (see instructions) Yes No

B If "Yes," did you or will you file required Forms 1099? Yes No

1a	Physical address of each property (street, city, state, ZIP code)				
A					
B					
C					
1b	Type of Property (from list below)	2 For each rental real estate property listed above, report the number of fair rental and personal use days. Check the QJV box only if you meet the requirements to file as a qualified joint venture. See instructions.	Fair Rental Days	Personal Use Days	QJV
A			A		<input type="checkbox"/>
B			B		<input type="checkbox"/>
C			C		<input type="checkbox"/>

Type of Property:

1 Single Family Residence

2 Multi-Family Residence

3 Vacation/Short-Term Rental

4 Commercial

5 Land

6 Royalties

7 Self-Rental

8 Other (describe)

Line by Line Analysis

- 1099-MISC
 - Did you make any payments that require this?
 - Must be in a trade or business
 - Includes rents, services and other items over \$600
 - Gross fees paid to an attorney over \$600
- Property address and type of property
 - The codes are there
 - Some may require more explanation

Special Rules

- Vacation and short term rentals
 - Prorations may be required
 - Expenses can be limited and are in a specific order
 - We have a handout at the NATP Booth
 - IRS Pub. 527
- Self-rental
 - Can be a tax trap
 - Income nonpassive
 - Loss passive
- Other
 - Not for rental of personal property—it is a trade or business
 - If your rental does not fall into any category, attach a statement

Counting the Days

- We must calculate rental and personal days
 - Personal days are:
 - Days you spent there for personal use
 - Days family members or friends spent there paying less than the going rent
 - Personal days are not:
 - Days you spent working there
 - Days you spent there before or after it was a rental property
 - If the property was available for rent, it is considered a rental day

Qualified Joint Venture

- Treats the income as earned separately without having to do a partnership return
- Election made by checking the box on Line 2
- Each must report their share as separate properties on Line 1, Schedule E
 - If more than 3 properties, combine Schedule E Lines 23a – 26 on only one form

Qualified Joint Venture

- In order to revoke the QVJ status
 - Sell the property or make it personal use property
 - Divorce
 - Ask for revocation from the IRS
- Community property states can have LLCs as QVJ
- Non-community property states cannot have LLCs as QVJ and must file Form 1065

Income:		Properties:	A	B	C
3	Rents received	3			
4	Royalties received	4			
Expenses:					
5	Advertising	5			
6	Auto and travel (see instructions)	6			
7	Cleaning and maintenance	7			
8	Commissions.	8			
9	Insurance	9			
10	Legal and other professional fees	10			
11	Management fees	11			
12	Mortgage interest paid to banks, etc. (see instructions)	12			
13	Other interest.	13			
14	Repairs.	14			
15	Supplies	15			
16	Taxes	16			
17	Utilities	17			
18	Depreciation expense or depletion	18			
19	Other (list) ▶	19			
20	Total expenses. Add lines 5 through 19	20			
21	Subtract line 20 from line 3 (rents) and/or 4 (royalties). If result is a (loss), see instructions to find out if you must file Form 6198	21			
22	Deductible rental real estate loss after limitation, if any, on Form 8582 (see instructions)	22	()	(

Income

- Rental income received reported on Line 3
 - Security deposits are not income
 - Trade in kind is income
 - Advanced rent
 - Expenses paid by tenant
- Royalties from oil, gas or mineral properties reported on Line 4

Auto and Travel

- If travel is necessary to your rental, this is where you take your deductions
- Remember only 50% of meals
- If you are taking auto expenses, you must complete Form 4562
- Be very aware of intent – What is the main reason for the travel?

Mortgage Interest and Taxes

- If you only rent a portion of the building, you must prorate the expenses to the rental unit and the remainder is personal
- This is the same for any expense that is part business, part personal

Repairs or Improvement?

- Small items are normally repairs, such as fixing screens and painting
- The questions to ask are how long will it last?
 - Is it improving the area in question or is it bringing it back to its current state?
- Read and understand the final repair and capitalization regulations

Other Expenses

- Just to list a few
 - Pest control
 - Lawn care
 - HOA fees
 - Permits and fees
 - Anything ordinary and necessary for the rental to exist
- Lost rent is **NOT** an expense unless you are an accrual based taxpayer



Depreciation and Depletion

- Depletion
 - Natural assets, such as mineral rights or standing timber
 - IRS Pub. 535
- Depreciation
 - There is no §179 when it comes to rental properties
 - Land is not depreciated
 - If an item is expected to last for less than a year, it is not depreciated

Depreciation

- Considered placed in service when ready and available
- If converted to business use, you use the lesser of FMV on the date of conversion or cost
- Idle property is still depreciated
- Retired property is taken off the depreciation schedule and properly reported on Form 4797

Depreciation—MACRS Property Classes



5 year

- Automobiles, appliances, carpeting, furnishings, office machinery and computers



7 year

- Office furniture, desks and file cabinets



15 year

- Roads, driveways, fences, landscaping



27.5 year

- Residential rental property



39 year

- Commercial rental property

Depreciation? What is that?

- Mainly do-it-yourself for your clients
- Depreciation is a **must**
 - Allowed or allowable
 - Even if depreciation is not taken, it must be accounted for when selling the asset
- Form 3115
 - Filed with the original return (including extensions)

Form 3115

- Correcting depreciation is a change in accounting method
- This is a 481(a) adjustment and does not cost the taxpayer anything
- Corrects the depreciation for the asset(s) involved by making the correction on the current return

23a	Total of all amounts reported on line 3 for all rental properties	23a			
b	Total of all amounts reported on line 4 for all royalty properties	23b			
c	Total of all amounts reported on line 12 for all properties	23c			
d	Total of all amounts reported on line 18 for all properties	23d			
e	Total of all amounts reported on line 20 for all properties	23e			
24	Income. Add positive amounts shown on line 21. Do not include any losses	24			
25	Losses. Add royalty losses from line 21 and rental real estate losses from line 22. Enter total losses here	25	()
26	Total rental real estate and royalty income or (loss). Combine lines 24 and 25. Enter the result here. If Parts II, III, IV, and line 40 on page 2 do not apply to you, also enter this amount on Form 1040, line 17, or Form 1040NR, line 18. Otherwise, include this amount in the total on line 41 on page 2	26			

At Risk

- Do you have ownership? Are you out money if there is a loss?
 - Then you are probably at risk
- Does someone else benefit from the property? Does it matter to you if there is a loss?
 - Then you are probably **not** at risk and your deduction is limited
- Form 6198
- IRS Pub. 925

Passive Activity

- Rentals are a passive activity
- Rental losses are passive losses
- Rental losses can be limited by other income
 - AGI over \$100,000 (\$50,000 for MFS)
- Losses are not lost, they are suspended
- Used when there is passive income, including sale of the asset or another asset with a passive gain
- Grouping rentals – must sell all before suspended losses are allowed
- Form 8582

Real Estate Professional

- In order to be a real estate professional, you must **materially participate** in the activity and meet both conditions:
 - More than half of the personal services during the year were in the real estate business
 - More the 750 hours of service were in the real estate business
- If married, one spouse must individually meet the 50% and 750-hour test
- If taxpayer qualifies – no limitation on rental losses

Name(s) shown on return. Do not enter name and social security number if shown on other side.	Your social security number

Caution. The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations **Note.** If you report a loss from an at-risk activity for which any amount is **not** at risk, you **must** check the box in column (e) on line 28 and attach **Form 6198**. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section. Yes No

	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if any amount is not at risk
A			<input type="checkbox"/>		<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>

Passive Income and Loss			Nonpassive Income and Loss				
	(f) Passive loss allowed (attach Form 8582 if required)	(g) Passive income from Schedule K-1	(h) Nonpassive loss from Schedule K-1	(i) Section 179 expense deduction from Form 4562	(j) Nonpassive income from Schedule K-1		
A							
B							
C							
D							
29a	Totals						
b	Totals						
30	Add columns (g) and (j) of line 29a					30	
31	Add columns (f), (h), and (i) of line 29b					31	()
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31. Enter the result here and include in the total on line 41 below					32	



Income and Losses From Entities

- Line 27 – you must inform the IRS if are deducting a prior year unallowed loss or UPE
 - Prior unallowed losses that are now deductible go on a separate line – notate with PYA
- Line 28
 - Area is where the K-1s are normally reported
 - Shows the income and losses of the entity
 - Nets your allowed and unallowed losses

Income and Losses From Entities

- List each entity separately
- Remember the at-risk rules
- Is the income passive or non-passive?
- Unreimbursed partnership expenses are deducted here
 - Partnership agreement must allow for this
 - Use UPE as the name of the entity
- **NO** shareholder expenses are allowed here

Part III Income or Loss From Estates and Trusts							
33		(a) Name				(b) Employer identification number	
A							
B							
Passive Income and Loss				Nonpassive Income and Loss			
(c) Passive deduction or loss allowed (attach Form 8582 if required)		(d) Passive income from Schedule K-1		(e) Deduction or loss from Schedule K-1		(f) Other income from Schedule K-1	
A							
B							
34a Totals							
b Totals							
35 Add columns (d) and (f) of line 34a						35	
36 Add columns (c) and (e) of line 34b						36	()
37 Total estate and trust income or (loss). Combine lines 35 and 36. Enter the result here and include in the total on line 41 below						37	
Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)–Residual Holder							
38		(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b	
39 Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below						39	

Estates, Trusts, REMICs

- K-1s are issued from estates and trusts
 - Passive
 - Nonpassive
 - Amounts are netted
- REMIC
 - An entity that holds a fixed pool of mortgages and issues multiple classes on interests in itself to investors
 - Special taxation rules

Part V Summary

40 Net farm rental income or (loss) from Form 4835 . Also, complete line 42 below	40		
41 Total income or (loss) . Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Form 1040, line 17, or Form 1040NR, line 18 ►	41		
42 Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120S), box 17, code V; and Schedule K-1 (Form 1041), box 14, code F (see instructions) . .			
43 Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040 or Form 1040NR from all rental real estate activities in which you materially participated under the passive activity loss rules . .			

Almost done!

- Summary section
- Reports farm rental income from Form 4835
- Reconciles farming and fishing income
- Reconciles real estate professional income

Responsibilities

Taxpayer

- Keep good records
- Maintain source documents

Tax Professional

- Know the laws
- Follow the laws
- Review prior returns
- Watch for...oh...
one last thing!

Net Investment Income Tax

- NIIT may include:
 - Rental and royalty income
 - Income from partnerships
 - Income from S corporations
 - Income from trusts
 - Other passive income reported on the Schedule E
- Form 8960