BONUS!

17 Rental Property Deductions Landlords Can't Live Without in 2020!

TOP 24 TAX DEDUCTIONS CHECKLIST FOR REAL ESTATE INVESTORS

Your Tax-Smart Guide to Lowering Your Taxes

2020 EDITION

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Contents

Introduction

Before discussing cutting taxes, you must have an income worthy of the strategies. If you're the average stock market or bond market investor, or worse someone with a savings account, you're likely not making enough money to worry much about the taxes you're going to pay.

Laying the groundwork for ways to cut your taxes from real estate investment, a quick look at why you need to learn these strategies is in order. Here are three article titles from different sources to illustrate the impact of real estate investing on the creation of wealth.

From: TheCollegeInvestor.com
90% of the World's Millionaires Do This to Create Wealth

From: McKinneyCapital.com
What Do 90% of the World's Millionaires Have in Common?

From: RealEstateInvestorGoddesses.com
7 Reasons Why 90% of Millionaires in the U.S. are Invested in Real Estate & Why You Should Be Too

Wherever these websites get their statistics, there are more of them out there all quoting a number around 90%. They tout the many advantages of real estate investment over other asset classes, and some of those advantages are excellent tax breaks from the IRS.

For this introduction, let's just agree that real estate investing could build your wealth, and now you can check off the ways in which to help it to do so while avoiding overpaying Uncle Sam. There's no particular order, as they're all good.

#1
Depreciation

This is a really valuable tax deduction advantage for real estate investors. It's particularly enjoyable for the investor, as they're not spending any cash for a fat deduction. Why no cash?

Depreciation is an annual write-off of an amount of money to represent devaluation of the property over time. For residential real estate, the life span of a property for depreciation is 27.5 years. So, the IRS allows you to write off a portion of the value of the property representing it reaching a value of $0 at the end of 27.5 years.

The best way to show the importance of this deduction in saving taxes is with an example. Suppose you buy a residential rental home for $189,000. The value of the lot is $39,000, which is subtracted, as you can only depreciate the structure.

$189,000 - $39,000 = $150,000 structure value

You can depreciate the value of the structure over 27.5 years. So, dividing the structure value by 27.5 yields the amount you can deduct each year of ownership for depreciation.

$150,000 / 27.5 = $5,455/year depreciation

Keep in mind that this comes right off your income/profit from your rents, and you aren't really spending any extra money out of pocket for this deduction.

One Wrinkle

There's one little catch to this deduction. Should you sell the property before it's fully depreciated in value, there will be a recapture of some of your depreciation by the IRS. This will result in less profit on your resale, as you're going to have to give back some of your depreciation deducted in prior years. It's not all of it, but you do need to know about it.

#2
Mortgage Interest

This is one of the reasons that most investors understand that it's better to get a mortgage and finance a rental property than to pay cash. Leveraging their cash with down payments for more properties is smarter than buying fewer homes with all cash.

You can write off the interest you pay on the mortgage loan as a business expense. Using our $150,000 home purchased in the depreciation example, and assuming a 20% down payment and a mortgage rate of 5.5%, here's how our mortgage interest deduction would look using a mortgage and amortization calculator:

$150,000 - $30,000 down = $120,000 mortgage
$681/month payment over 30 years
Interest paid first year of ownership = $6,560

That's your first year mortgage interest deduction. The interest paid is dropping throughout the ownership period, as you're paying down the principal balance against which the interest is calculated. In the second year, as an example, the interest paid would be approximately $6,400.

If you begin to keep tabs on the mounting deductions allowed for real estate investment in rental properties, you'll see why huge amounts of money are being earned with very low tax liabilities; it's a nice way to invest.

#3
Property Taxes & Insurance

With most mortgages there is an escrow account that holds the mortgage payment and money for property taxes and insurance. The lender wants to be certain that these items are kept paid and up-to-date because they secure the value of the property against seizure or disaster.

The money paid for property taxes and insurance is deductible annually as legitimate expenses. No matter how these are paid, they are valid business expenses. An example is too variable, as property tax rates vary a lot by area. However, for our $150,000 property, casualty insurance and property taxes can easily total $2,000 or more per year.

#4
Repairs

Rental property needs repairs, often more than owner-occupied homes. Tenants are not necessarily as careful, and they can be demanding when it comes to problems, repairs, and the speed at which you respond as a landlord.

Money spent for minor repairs, such as clearing drains, minor plumbing issues, replacing circuit breakers, etc., are all deductible in the year they are done and paid as expenses.

Larger repairs, such as new air conditioning/heating equipment, roofs, etc., are considered improvements, and must be depreciated, so a portion of the cost is deductible each year. You can check the IRS guidelines for what is considered a deductible repair versus one that must be depreciated. For example, replacing the furnace or HVAC system must be depreciated over 27.5 years.

#5
Maintenance

Maintenance is different from repairs. Maintenance includes things like lawn care, cleaning, clearing gutters, cleaning the roof, recaulking windows, etc. Maintenance is deductible in the year it's completed and paid for as an expense.

An example of maintenance is painting the home, a common question asked to differentiate it from a depreciable repair.

Multi-family property investors, such as apartment investors, have higher maintenance deductions due to parking areas, common areas, etc. They would be required to keep common areas in good shape, outdoor common areas clean and landscaped, etc.

#6
Losses from Theft or Casualty

Real estate rental investors can write off in the year they happen any losses from theft or casualty related to their rental properties.

Suppose a tenant leaves and takes some wall art or other items that are part of the rental property. The value of that property would be a valid deduction.

If there is some type of damage, though it's also possibly deductible as a repair, it can be deducted as a casualty expense. Smoke damage from a kitchen fire would be an example.

#7
Segmented Depreciation

In the repairs item, you learned that certain large repairs or renovations were considered property improvement, and they must be depreciated over the remaining life of the property.

Some improvements, such as landscaping or replacement of personal property can be treated differently. A refrigerator, considered personal property, would qualify for segmented depreciation. A window air conditioner would also qualify, as it isn't a permanent part of the structure.

Segmented depreciation allows these items to be depreciated faster than the property life. This allows a higher current and early years deduction.

#8
Utilities

Generally the property owner-investor will pay for utilities such as water, sewer, and trash services. The tenant is usually responsible for gas and electric usage, though there are full utilities paid leases as well.

As real estate investors grow their business, they may move into multi-family properties. Utility expenses for operation of the common areas, such as the office, laundry room, swimming pool, etc. would be deductible. They may also have higher utility bills due to electric gates or other security measures, all deductible.

All utilities expenses paid by the real estate owner-investor are deductible as valid business expenses in the year incurred.

#9
Marketing & Advertising

Real estate investors, whether wholesalers, fix & flip, or rental investing, all must do some form of marketing or advertising for sellers, properties, or buyers. Some of it is free online, but any marketing or advertising that carries costs is deductible.

- **Classified ads** – investors run ads to attract sellers and buyers for their activities. Ads to build a buyer list, as well as those "We Buy Houses" ads all qualify for a deduction. You'll also run ads for tenants if you're a rental investor.
- **Bandit signs** – you know these signs, the ones by the side of the road and at street corners. They have those "Fast Cash for Houses" type messages to attract sellers.
- **Investment club dues** – you join these clubs to meet other investors for networking and business opportunities.
- **Website** – if you have your own website for promotion, the costs to build, host, and maintain it are deductible.
- **Flyers and brochures** – If you're an investor selling homes in the retail market, you'll likely have some brochures or flyers in the homes for prospective buyers. The same could apply to using flyers to attract renters.
- **Email costs** – you could buy email lists for marketing, such as lists of homeowners in a target area for email to attract motivated sellers.
- **Direct mail** – you could buy address lists and materials/printing to do direct mail into a target market area. Or, you may pay a service to do it for you; the same would apply to email.

In short, the costs of activities and materials that are used to further your real estate investment business goals would normally be deductible.

#10
Professional Management

Rental property investors who grow their property portfolios often reach a point where they hire a management company. These companies charge a fee, usually a percentage of collected rents, to handle property management functions including:

- **Marketing** – the company would do the advertising for tenants.
- **Tenant vetting** – interviewing and background checks for tenant selection is quite important.
- **Tenant relations** – handling of tenant complaints and requests.
- **Maintenance and repairs** – this would include when necessary the selection and hiring of repair and maintenance companies.
- **Forms and enforcement** – rental agreements and keeping tenants in line with the requirements would be their job as well.
- **Rent collection** – collection and remittance of rents to the investor. This would include notices and enforcement through eviction if necessary.

Fees and pass-through of expenses approved by the investor and spent by the management firm would be deductible.

#11
Professional Fees

In the course of real estate investment activities, whether short term or long term rental investing, there are a great many legal and accounting functions.

- **Attorney** – contracts, from purchase, sale, and rental agreements, to contractor and sub-contractor agreements, all should come from or be approved by an attorney. Evictions and tenant lawsuits can also create the need for an attorney or legal action.

- **Accountant** – from the first day you consider real estate investing, you should consider having a trusted accountant with real estate investing expertise. You'll want to run some ideas past them to see if they're viable or to get a reliable opinion as to the best strategies for profit and tax avoidance.

All professional fees related to the conduct of your real estate investing business are normally deductible.

#12
Rent Collection & Enforcement

Many rental property investors are DIY, do-it-yourself types, especially when they have just one or a few properties. It saves money, so they take on the job of collecting rent and enforcing payment.

Usually it's not difficult, simply giving the tenant your mailing address and depositing the checks. If you allow tenants to pay rent with credit or debit cards, you can deduct the fees from income for card processing. However, costs may be incurred when the tenant is consistently late in paying or they move out with rent due.

You may have to file required notices that must be via registered or certified mail, and those costs are deductible. You could have costs for the service of documents or notices. If an expense is related to your business, it is deductible.

#13
Specialty Insurance

You do have property damage and catastrophe insurance on a rental home, discussed previously as a deductible expense. However, there are other insurance coverages that rental property owners purchase for protection, including:

- Liability coverage – though your structure is covered for damage or destruction, what if a tenant sustains an injury that is deemed to be the result of a problem with your rental?
  Liability coverage protects you from legal action and awards related to these kind of lawsuits. It's a litigious society, so this coverage is often made mandatory by your mortgage lender.
- Rent default insurance – the previous discussion of the deductibility of expenses related to tenant rent default and eviction can be partially or totally covered by a rent default insurance policy.
  One insurer providing this specialty coverage states on their website: "The average loss a landlord incurs from evicting a tenant is $3,500 and 84% of landlords confirm that payment problems are their largest concern with new tenants."
  This type of policy covers the loss of rents and/or the costs of an eviction process related to military deployment and tenant death as well.

There can be a tendency to over-insure, so take care to do some research to determine your risks versus the cost of specialty insurance.

#14
Home Office

Most real estate investors enjoy the ability to operate a profitable business that requires little overhead in the way of facilities and personnel. Many operate alone and use a team of other professionals sub-contracted for activities related to wholesale and fix & flip activities.

This low overhead environment is often the kitchen table in the home, but a more structured approach can offer deductible expenses for a home office. You want to be careful to follow IRS home office rules, as this is one area that they like to audit.

There are two major requirements for writing off home office expenses:

- **Regular and exclusive use** – the office space in your home should be dedicated to your business and you use it for your office activities regularly.
- **Principal place of your business** – you can't deduct part of your home as your office if you have an office elsewhere for your business.

It is possible to have another office and still deduct a portion of your home for a home office, but the rules are strict and you'll need a good reason for doing only part of your business from home and records to apportion your activities.

Two methods of home office expense calculation:

Under the Regular method of calculating home office deductible expenses, you determine the ratio of the dedicated office space square footage to the square footage of your home. As an example: if your home is 2400 square feet in size and you use one bedroom exclusively for your office with a size of 200 square feet, then you can apportion your expenses based on 2400 / 200 = .0833 of home size or 1/12th.

Once you have this number, you can use it to calculate your home office deduction by applying it to expenses related to owning and maintaining your home, including:

- Mortgage payments
- Utilities
- Maintenance and repairs
- Property taxes and insurance premiums
- Depreciation & Other expenses

This gets complicated quickly. There's a whole long publication, *Publication 587 – Business Use of Your Home*, with many pages and lots of ways to figure your total deduction. While it's likely that you can come up with a higher deduction using the Regular Method, in 2013 the IRS came out with their Simplified Method. Here's an IRS chart with an overview of how they compare.

You can run some comparisons to see how one method compares to the other in your situation in the following chart. Consider that the IRS will probably scrutinize the results of the Regular method far more diligently than the Simplified or they wouldn't have come out with it. However, they also likely take more of your money through the Simplified method; it's your choice.

#15
Education

From the moment you begin to consider real estate investment as a business, you will be doing research and learning more about it. There's a lot to learn. Some people take the DIY approach and just do a ton of online research, but they also likely buy some books as well.

You can deduct expenses related to education in how to conduct and manage your real estate business. These expenses can include:

- Books
- Online courses
- Seminars
- Offline courses
- Subscription services for info about:
  - Property location
  - Buyer location
  - Locating motivated sellers
- Foreclosure notifications
- Real estate listings
- Business retreats solely for real estate investment education

The more you learn, the more you earn, so why not take deductions for the education?

#16

Travel, Meals & Entertainment

This is a good time to discuss travel and meals, as they could be related to your education expenses. However, meals can be deductible in the course of doing regular business in your home area as well.

Travel Expenses

If you travel in the course of conducting your business or getting an education in conducting your business, your direct travel expenses are deductible. Examples:

- Air, train or bus fare to attend meetings, seminars, or other activities related exclusively to your business.
- Leased vehicle expenses when for business
- Your own vehicle expenses as discussed in the next section.

- Travel related to the purchase, ownership, or management of properties you own outside of your home area.

You must keep receipts to verify the business purpose and cost of all travel deductions, including who you met with and where.

Meals & Entertainment

The IRS wants you to eat, but they're a bit stingy when it comes to giving you a deduction for the costs of doing so, even when traveling.

There are instances when the full cost of meals or entertainment are deductible, but they're limited. Here's an overview chart to help in classifying expenses and deductions:

Type of Expense	**Deduction**
Entertaining clients (event tickets, golf, etc.)	0% deductible
Business meals with clients	50% deductible
Office snacks and meals	50% deductible
Company-wide party	100% deductible
Meals & entertainment (included in compensation)	100% deductible

There's more, but the gist is that you must document the business purpose of all travel and meal deductions with location, names of attendees or clients/customers, and notes of what was discussed.

#17

Automobile Business Expense

There aren't many real estate investors who buy and dedicate a vehicle solely for their investment business use. If you do and can document 100% of the use of that vehicle for business use, you can write off the expenses and even depreciate it for a deduction. Valid deductible expenses can include:

- Gas and oil
- Repairs and maintenance
- Depreciation of your original vehicle and improvements
- Parking fees for business trips
- Registration fees
- Tires
- Insurance
- Car washing
- Lease payments
- Towing charges
- Car repair tools
- License fees

A "company car" is just that, owned, controlled, and maintained by the business, and used only for business purposes. Most real estate investors end up using their personal vehicle in the course of their business. You have a choice as to how to report your deductible expenses. You have the simpler Standard Mileage Rate or the more record-keeping intense Actual Vehicle Expenses method.

Standard Mileage Rate Expense Deduction

This is the simpler method, though you still must keep accurate and verifiable records of your business use:

- Start and end time and mileage for each business trip.
- Destination and business purpose of the trip.
- Total mileage for the year, both business and non-business.

The IRS deduction for 2020 is 57.5 cents/mile for business mileage, so it's a simple multiplication after all of the record-keeping and adding up the business miles. The standard method is your total deduction, not requiring validation of fuel, repairs, etc.

Actual Vehicle Expenses Method

In this method, you keep track of all expenses mentioned in this section, from fuel to repairs and more. You still must keep the mileage record documenting each trip, start, stop, mileage, business purpose, etc.

Taking the percentage of business use for the year (Biz miles divided by All miles) you get the percentage of business use and apply it to the total expenses for your deduction.

Which method should you use? Since most of the record-keeping for the mileage is the same, just throwing receipts into the glove box, you can work it both ways to see which works best each year. ***You can only do this if the first year you placed your vehicle into business use you used the Standard Mileage method.***

#18
Real Estate Closing Costs

When you're buying and selling real estate as part of your business, you're involved in closings on both ends. Some of the costs listed in the settlement statement are deductible as business expenses for an investor in that year, while others become part of the "cost basis" of the property and are depreciated with the structure. Here's what the IRS says:

Generally, deductible closing costs are those for interest, certain mortgage points and deductible real estate taxes.

Many other settlement fees and closing costs for buying the property become additions to your basis in the property and part of your depreciation deduction, including:

- Abstract fees
- Charges for installing utility services
- Legal fees
- Recording fees
- Surveys
- Transfer taxes
- Title insurance
- Any amounts the seller owes that you agree to pay (such as back taxes or interest, recording or mortgage fees, sales commissions and charges for improvements or repairs).

Pay attention to escrows for taxes and insurance, as they're listed in the closing statement and impounded in advance so the mortgage company can pay them.

#19

Mortgage Insurance (PMI)

Though this will normally show up in closing costs on the settlement statement, it deserves individual mention here. PMI is normally only necessary when the mortgage is more than 80% of the property value.

Pay attention to your paydown of the mortgage, as when your balance drops to the point that you have 20% or more in equity, you can have it cancelled and removed.

#20
Tenant Screening

One way to avoid the expenses related to bad debts, unpaid rent, and evictions is to do a good job of screening tenants. This doesn't mean just having them fill out an application form and checking their credit.

There are many online services that specialize in providing tenant screening services for rental property owners. These services can include:

- Rental application
- Credit report
- Criminal search
- Eviction report
- Previous address history
- Sex offender search
- Terrorist search

These services run between around $20 and $40 per applicant, but they can save you a ton of money. Just hone your applicant pre-selection down to two or three finalists.

As there are many to choose from, there are some considerations that could make the difference in the form of possible issues:

- **Instant Data Issues** – with the human desire for instant gratification, you could be sacrificing completeness or accuracy for the faster service or instant report.
- **Compliance with FCRA** – Does the service comply with the FCRA, Fair Credit Reporting Act, as this is a requirement for this type of service.

- **Tenant Involvement** – there are two ways in which data is gathered, and one or the other is used by each service, or they're offered as a choice. If tenant involvement is chosen, the tenant consents to having their email address provided, and they receive an email link to a place to answer screening questions. When tenant involvement is not used, all screening is done without the tenant being involved or providing information.
- **Eviction Data** – data shows that once a tenant has been evicted, the process is less frightening and they're far more likely to be evicted again. So, a service that provides this information can be more valuable. However, do they provide it only for in-state or all state areas?

Just do your due diligence in making your selection of a tenant screening service.

#21
Office Expenses

In the previous Home Office discussion, it was all about the space and how to deduct the cost. This is about taking advantage of all of the expenses you can deduct related to your office operations and communications.

- Forms and paperwork
- Paper and print supplies
- All office supply items
- Printer toner
- Checks for business bank account
- Business bank account fees
- Portion of your cell phone bill
- Reference materials

- MLS, Multiple Listing Service subscriptions
- Extra data fees or data storage costs
- Software you use for your business or properties
- Phone apps you use in business
- Racks, shelving, file cabinets, etc.

If it's in your office and used fully in your real estate investing business, then it should be deductible.

#22
Office & Special Equipment

This is about the more expensive items of equipment that you may use in your real estate investment business.

- Computer(s)
- Dedicated phone(s)
- Printer(s), B&W and color for marketing
- Camera(s) just for business/properties

While some of this equipment, especially high end expensive items, could be required to be depreciated, you have another approach.

The Section 179 Deduction allows a business owner to write off in the year of purchase up to $1 million in capital equipment.

If you've been thinking about a new computer for home, reconsider and retire your current computer to home use and buy a nicer computer with more features dedicated to business use.

Purchase it as late as the end of December and still get the writeoff this tax year and even pay for it later with financing.

#23

Permits, Licensing & Related

Some localities require a license for a home office with associated inspection and compliance costs. Those would be deductible. Other municipalities may require special permits for a home office or even proof of liability insurance for customers/clients who frequent the business.

Any government, subdivision, or Homeowner Association required costs will be deductible.

#24

Pass-Through Entity Deduction

Saving one of the best till last, the Tax Cuts and Jobs Act passed in 2017 by President Trump and effective in 2018 allows a new deduction for business owners in pass-through tax entities, from sole proprietors to corporate owners other than C Corporations.

A flat 20% right off the top of your pass-through taxable income is a deduction. It's neat and easy, as every $10,000 in profit is only going to have $8,000 subject to your personal tax rate.

What you'll find as you begin to take full advantage of these deductions, is why so many millionaires got that way through real estate. It's possible to make a fat profit from your investments while paying skinny tax rates.

BONUS

17 Rental Property Deductions
Landlords Can't Live Without in 2020!

1. Home Office

You have to set aside a percentage of your home for only doing work/business/real estate investing-related activities, and that percentage of your housing bill can be deducted.

As a real estate investor, you're a business owner, so you can claim part of your home if you use the space exclusively for "business."

Make sure and talk to an accountant about this, and keep the percentage realistic. We may see this deduction scrutinized more in 2020.

2. Applicant Screening

If you paid for tenant's credit reports, criminal background checks, identity verifications, eviction history reports, employment and income verification or housing history verification, those fees are deductible.

Consider having the applicant pay directly for tenant screening report costs.

3. Professional Fees

All professional fees associated with your rental properties are tax deductible. Bookkeeping, accounting, attorney, real estate agent and any other fees you pay out for professional services can be deducted from your taxable income.

One challenge introduced by the Tax Cuts and Jobs Act however is that personal tax preparation expenses are no longer deductible from 2018 onward. But business accounting, such as for your real estate LLC or S-corp, is still deductible as a rental business expense for landlords.

4. Licensing & Registration Fees for Rental Properties

Licensing and registration fees are sometimes a local requirement for rental properties. Some areas require a licensing for short-term rentals and this is deductable as well.

5. Theft Loss

Fortunately landlords can still deduct losses from theft or damage to their rental properties, as business expenses.

The Tax Cuts and Jobs Act suspended the itemized deduction for personal casualty and theft losses for 2018 through 2025. Before 2018 deductions of this kind were permitted when they exceeded $100.

6. Maintenance

Basic repairs and maintenance such as new paint and new carpets are deductible for your rental properties.

Remember, if it’s a large improvement or replacement (like the roof example), it may count as a “capital improvement,” in which case you’ll have to spread the deduction over multiple years, in the form of depreciation.

The line isn't always crystal clear however, like the roof example above. Here's an example of how it gets blurry: if you replace all your windows to modernize and improve your energy efficiency, it's a capital improvement. If a baseball goes through one window, which you replace, it's a repair. But what if you replaced a few windows last year, but not all?

Talk to an accountant, and build a defensible argument for any repairs you deduct.

7. Segmented Depreciation

Some improvements, such as landscaping and "personal property" inside the rental/investment property (e.g. refrigerators) can be depreciated faster than the building itself. It's more paperwork, to segment the depreciation of certain improvements as separate from the building's depreciation, but it means a lower tax bill right now.

8. Utilities

Gas, heating, trash, sewer or any other utility for your rental can be deducted if you paid for them

However, if your tenant reimburses you for a utility, that would be considered income. So you have to declare both the income and the expense, even though they offset each other.

9. Travel

You can deduct travel expenses if your travel was for your rental business and you can prove it.

Whenever you plan on deducting travel expenses, put together as much documentation as you possibly can so that you can make a strong case that it was an actual business trip. For example, meet with a real estate agent in the area, and keep all of your email correspondence with them. Keep all listing information and investment calculations for any properties you visit. Track your mileage for all driving done to and from rental properties.

10. Mortgage Insurance for Rental

You can deduct this cost from your taxable rental property income.

Check to see if any of your mortgage balances have fallen below 80% of their respective property values. If so, and if you financed it with a conventional mortgage, you can apply to have PMI removed from the loan, and potentially save yourself money.

11. Property Management Fees

You can write off their management fees, including monthly percentage fees, new tenant placement fees, and any other fees the manager slaps you with.

12. Business Entity Pass-Through Deduction

There were significant changes in 2018 tax regulations on how legal entities (e.g. LLCs) and pass-throughs are going to be treated. Sole Proprietorship, Partnership, and Corporate Entities are now entitled to a “pass-through” deduction as long as the rental activities meet the requirements for business tax purposes.

The short version is that landlords can deduct 20% of their rental business income from their taxable business income amount. For example, if you own a rental property that netted you $10,000 last year, the pass-through deduction reduces your taxable rental business income from $10,000 to $8,000.

The deduction phases out for single tax payers with adjusted gross incomes over $157,500, and married taxpayers earning over $315,000. Although under some conditions, higher-earning landlords can still take advantage of the pass-through deduction.

13. Property Insurance for Your Rental

Like homeowner's insurance for your primary residence, your landlord insurance premium for each property is also tax deductible.

You can also deduct the cost of rent default insurance policies for each property. Rent default insurance pays the rent until you go through the eviction process and sign a new lease agreement with a tenant

14. Mortgage Interest

All mortgage interest you pay on rental property loans is tax deductible. For a primary residence, the IRS limits the deductibility of mortgage interest only up to $750,000 of home mortgage debt for tax the year 2019.

15. Occupancy Tax

There are states that assess an occupancy tax on collected rental amounts, comparable to paying sales tax.

If you own rental property in an area that charges an occupancy-like tax, then the amount is tax deductible. Remember, however, that the tax will not only differ from state to state but also from local jurisdictions like cities and counties.

16. Closing Costs

Many closing costs are tax deductible, and others can be depreciated over time as part of your acquisition cost. Be sure to use an accountant with a strong understanding of real estate investments, and send them the settlement statement (previously called a HUD-1, now known as a CD or closing document) for each property you bought last year.

17. Property Depreciation

Most of the cost of buying your property can be written off as a tax deduction, although it must be spread over 27 1/2 years. The concept is that buildings lose value as they age, so the IRS allows owners to deduct some of the property's cost each year.

Major property upgrades and "capital improvements" must be depreciated as well, rather than deducted in the year you make them. For example, a new roof is a capital improvement that must be depreciated, rather than deducted all at once.

Conclusion

All of these deductions are important, but most take a professional CPA to realize. Spend your time focusing on building your business and find a qualified professional who can help you keep as much income as you can.