



Losses and Your Rental Property

The general rule is that rental activity is passive, which limits the amount of losses you can claim on your tax return.

PASSIVE-LOSS LIMITS

Except for real estate professionals, most taxpayers will be limited on the amount of rental loss they can deduct from their tax return. The amount of passive loss you can deduct on your tax return is typically limited to the lesser amount of your investment that is at risk or your total passive income. You aren't allowed to offset passive losses against other income types (e.g., wages or capital gains). If you have excess losses, they can be carried forward to offset future passive income.

\$25,000 EXCEPTION

The IRS allows an exception. If you participate in your rental activity and have an adjusted gross income (AGI) of less than \$100,000, you may be able to deduct up to \$25,000 of your loss from non-passive income sources. The deduction amount begins phasing out until it's completely eliminated when your AGI reaches \$150,000.

Active participation involves significant and bona fide involvement like approving tenants and deciding on rental terms.



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