



Income – Schedules K-1 and Rental

Schedule K-1 (Form 1065) 2016
 Department of the Treasury Internal Revenue Service
 For calendar year 2016, or tax year beginning _____, 2016

Part III
 1 Ordin

Part I SCHEDULE E (Form 1040) Supplemental Income
 (From rental real estate, royalties, partnerships, S corporations, trusts, etc.)
 Department of the Treasury Internal Revenue Service (99)
 Name(s) shown on return

Part I Income or Loss From Rental Real Estate and Royalties
 Schedule C or C-EZ (see instructions). If you are an individual, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions). If you are a partnership, S corporation, trust, or estate, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions). If you are a qualified joint venture, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions). If you are a trust or estate, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions). If you are a partnership, S corporation, trust, or estate, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions). If you are a qualified joint venture, report the net income or loss from rental real estate on Schedule E (Form 1040) or Schedule C or C-EZ (see instructions).

A Did you make any payments in 2016 that would require you to file Form 1099?
B If "Yes," did you or will you file required Forms 1099?

1a Physical address of each property (street, city, state, ZIP code)

A	
B	
C	
D	

1b Type of Property (from list below)

A	
B	
C	
E	
F	

2 For each rental real estate property listed above, report the number of fair rental personal use days. Check the **QJV** box only if you meet the requirements to be a qualified joint venture. See instructions.



About Income – Schedules K-1 and Rental

- Additional resources listed in L< “References” tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise



Objectives – Income – Schedules K-1 and Rental

- Identify Schedule K-1 income items that are within the scope of the VITA/TCE programs
- Determine how to report Schedule K-1 income items
- Determine which types of rental income must be reported
- Identify how to report rental expenses
- Time Required: 30 minutes

Topics



- Schedule K-1



- Rental Income and Expenses
- Depreciation
- Special Allocations
- Rental Loss

Key Terms

Definitions are always available in the L< online Glossary.

- Actual Expense Method
- ADS
- At-risk Rule
- Basis
- Cash Method of Accounting
- Depreciation
- Investment Income
- Modified Accelerated Cost Recovery System (MACRS)
- Passive Activity
- Rental Expenses
- Rental Income
- Schedule K-1 (Form 1041)
- Schedule K-1 (Form 1065)
- Schedule K-1 (Form 1120S)
- Standard Mileage Method

Schedule K-1

- Reports taxpayer's share of income and other distributions, deductions, and credits from partnerships, S corporations, and some estates and trusts
- Limited Schedule K-1 income topics (and reporting forms) are in scope
 - Interest income (Form 1040, line 8a, unless Schedule B is required)
 - Dividend income (Form 1040, line 9a, unless Schedule B is required)
 - Qualified Dividends income (1040, line 9b)
 - Net short-term capital gains and losses (Schedule D, line 5)
 - Net long-term capital gains and losses (Schedule D, line 12)
 - Tax-exempt interest income (Form 1040, line 8b)
 - Royalty income (Schedule E) – only in scope if the source document is a Schedule K-1 or Form 1099-MISC, Box 2, Royalties, with no associated expenses



Rental Income and Expenses

- Generally, income from renting a room or home to a tenant is reportable on Form 1040, Schedule E
 - Property must have been rented at fair rental value – if not, income and expenses are reported differently, and it is out of scope
- Two methods of accounting:
 - Cash basis – most common
 - Accrual method – out of scope

SCHEDULE E (Form 1040)		Supplemental Income and Loss			OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)			2016	
Name(s) shown on return		▶ Attach to Form 1040, 1040NR, or Form 1041. ▶ Information about Schedule E and its separate instructions is at www.irs.gov/schedulee .			Attachment Sequence No. 13	
		Your social security number				
Part I Income or Loss From Rental Real Estate and Royalties <small>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.</small>						
A Did you make any payments in 2016 that would require you to file Form(s) 1099? (see instructions)					<input type="checkbox"/> Yes <input type="checkbox"/> No	
B If "Yes," did you or will you file required Forms 1099?					<input type="checkbox"/> Yes <input type="checkbox"/> 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.	Fair Rental Days	Personal Use Days	QJV

Rental Income and Expenses



What are common deductible rental expenses?

- Mortgage interest
 - Split between Schedule A and Schedule E if only part of the home was rented, or if the home was rented for only part of the year
- Property taxes
 - If any part of the property tax is a special assessment for local benefits, it is added to the basis of the property, and is not deductible
- Property insurance
- Auto and travel expenses related to the production of rental income
 - Standard mileage rate
 - Actual expense method – out of scope
- Property repairs

Rental Income and Expenses



Repairs vs. Improvements – common source of confusion

- Repairs:
 - Keep the property in good operating condition
 - Costs are current year deductions
- Improvements:
 - Add to the life or material value of the property, prolong its life, or adapts it to new uses
 - Costs must be depreciated over the useful life of the improvement

Rental Income and Expenses Practice



- Review the Tax Map, [Allowable Rental Expenses – Illustrated Example](#)
- Try the Skills Warm Up in L< on recovering different types of rental expenses (slide 10)

Internal Revenue Service
United States Department of the Treasury

LEVEL:

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★ LESSON: Schedules K-1 and Rental Income Workout

• Rental Income and Expenses

← Previous Next

Skills Warm Up: Rental Income and Expenses

Florence incurred several expenses for her rental property, which she rented out all year. Determine whether and how she can recover each of the costs. Type a number in each blank to indicate how to recover each expense. (Some numbers may be used more than once or not at all.)

How to Recover Expense:		Expense:
1. Take full deduction on Schedule E for current year	<input type="text"/>	Insurance premiums paid in advance
2. Split deduction on Schedules A and E	<input type="text"/>	Broken window replacement
3. Pro rate on Schedule E over more than one year	<input type="text"/>	Mortgage interest
4. Depreciation on Schedule E	<input type="text"/>	Property tax

MATCH

Depreciation



- What are some examples of depreciable property?
 - Buildings, machinery, furniture, vehicles, improvements to rental property
- Land and land improvements are *not* depreciable
- Three basic factors determine amount of depreciation:
 - Basis of the property
 - Recovery period for the property
 - Depreciation method used

Special Allocations



Rental vs. Personal Use

- Personal use of a dwelling unit can limit deductibility of rental expenses
- Mortgage interest and property taxes are allocated separately on both Schedules A and E if there is personal use
- Review the Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home in [Pub 17](#), Chapter 9, Rental Income and Expenses.

Worksheet 9-1. **Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home** *Keep for Your Records* 

Use this worksheet only if you answer "yes" to all of the following questions.

- Did you use the dwelling unit as a home this year? (See [Dwelling Unit Used as a Home](#).)
- Did you rent the dwelling unit at a fair rental price 15 days or more this year?
- Is the total of your rental expenses and depreciation more than your rental income?

PART I. Rental Use Percentage

A. Total days available for rent at fair rental price	A. _____
B. Total days available for rent (line A) but not rented	B. _____
C. Total days of rental use. Subtract line B from line A	C. _____
D. Total days of personal use (including days rented at less than fair rental price)	D. _____
E. Total days of rental and personal use. Add lines C and D	E. _____
F. Percentage of expenses allowed for rental. Divide line C by line E	F. _____

Rental Loss



- Passive Income vs. Active Participation – Taxpayers who are not active participants may not deduct rental losses that exceed rental income.
- Two restrictions on how much a loss from passive activity can offset other sources of income:
 - At-risk rule – taxpayer can claim a loss only up to the amount for which they are personally at-risk in the activity
 - Passive activity rule – losses that exceed rental income are not deductible
- For more information, see [Publication 925](#), Passive Activity and At-Risk Rules.



Reporting Rental Loss

- When reporting passive rental loss, Form 8582 is generally not required if the taxpayer has:
 - Only one passive loss generated from a rental activity and
 - An AGI of less than \$100,000
- If in doubt, refer the taxpayer to the IRS or a professional tax preparer.

SCHEDULE E
(Form 1040)

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

OMB No. 1545-0074
2016
Attachment Sequence No. **13**

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040, 1040NR, or Form 1041.
▶ Information about Schedule E and its separate instructions is at www.irs.gov/schedulee.

Name(s) shown on return _____ 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 2016 that would require you to file Form 1099-NEC or 1099-MISC?

B If "Yes," did you or will you file required Forms 1099?

1a Physical address of each property (street, city, state, ZIP code)

A _____
B _____
C _____

1b Type of Property (from list below)

A _____
B _____
C _____

2 For each rental real estate property above, report the number of fair rental days. Check the **QJ** only if you meet the requirements of a qualified joint venture. See instructions.

Type of Property:

1 Single Family Residence	3 Vacation/Short-Term Rental	5
2 Multi-Family Residence	4 Commercial	6

Income:

3 Rents received	
4 Royalties received	

Expenses:

5 Advertising	
6 Auto and travel (see instructions)	
7 Cleaning and maintenance	
8 Commissions	
9 Insurance	
10 Interest on debt related to the property	

Form 8582 **Passive Activity Loss Limitations**

OMB No. 1545-1008
2016
Attachment Sequence No. **88**

Department of the Treasury
Internal Revenue Service (99)

▶ See separate instructions.
▶ Attach to Form 1040 or Form 1041.
▶ Information about Form 8582 and its instructions is available at www.irs.gov/form8582.

Name(s) shown on return _____ Identifying number _____

Part I **2016 Passive Activity Loss**
Caution: Complete Worksheets 1, 2, and 3 before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see Special Allowance for Rental Real Estate Activities in the instructions.)

1a Activities with net income (enter the amount from Worksheet 1, column (a))	1a	
b Activities with net loss (enter the amount from Worksheet 1, column (b))	1b	
c Prior years unallowed losses (enter the amount from Worksheet 1, column (c))	1c	
d Combine lines 1a, 1b, and 1c	1d	

Commercial Revitalization Deductions From Rental Real Estate Activities

2a Commercial revitalization deductions from Worksheet 2, column (a)	2a	
b Prior year unallowed commercial revitalization deductions from Worksheet 2, column (b)	2b	
c Add lines 2a and 2b	2c	

Practice

- Select the practice exercise for Form 1040 Income line 17.
- Complete the exercise



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VITA/TCE Problems and Exercises **2014 RETURNS**
Volunteer Income Tax Assistance (VITA) / Tax Counseling for the Elderly (TCE) EVERGREEN VERSION

Line 17—Rental Real Estate **Current Year Not Available**

When the Brooks moved to Samuel's first duty station, they could not sell their home. They asked a realtor friend to find a renter for them. It was available for rent July 1, 2011. They had records to show the income and expenses related to the rental property. They actively participated in their rental property.

It was rented on August 1, for \$700 per month. They collected \$3,500 in rent for 2011. Their rental expenses included \$135 to their friend for finding a renter and \$235 for yard maintenance and some small repairs. They paid \$400 per year for property insurance. They received Form 1098, *Mortgage Interest Statement*, from Oak Grove National Bank. The bank reported that they had paid \$5,815 in mortgage interest and \$1,380 in property taxes on their home, which was located in Maple Way, Your State.

Their friend computed this year's depreciation for them, which would be \$1,400. (This is calculated on an \$84,000 basis for depreciation, 27 and one-half-year recovery period, mid-month convention, and straight-line method. The basis for depreciation is the value of the property [\$90,000] less the value of the land [\$6,000] which is not depreciable.)

Refund Monitor – Refund (Balance Due): \$ _____



Summary

- This lesson covered:
 - Identifying Schedule K-1 income items that are within the scope of the VITA/TCE programs
 - Determining how to report Schedule K-1 income items
 - Determining which types of rental income must be reported
 - Identifying how to report rental expenses
- Check your understanding of this lesson by going to Certification Warm Up on your student landing page



Skills
Workout



Certification
Warm Up



Media: Videos
& Audio



TaxWise
Tutorial



Job Aids



Practice
Lab

Schedule K-1 Items Within Scope:

- Interest income (Schedule B)
- Dividend income (Schedule B)
- Net short-term capital gains and losses (Schedule D)
- Net long-term capital gains and losses (Schedule D)
- Tax-exempt interest income (Form 1040, line 8b)
- Royalty income (Schedule E)

Out of Scope for this Lesson:

- Income (not listed above), deductions, credits, and other items reported on Schedules K-1
- Royalty income reported on Form 1099-MISC with associated expenses
- Taxpayers who rent their property at less than fair rental value
- Rental-related interest expenses other than mortgage interest
- The actual expense method (auto and travel expense deductions)
- Casualty loss
- Completing Form 8582
- Completing Form 4562
- “Yes” answer to question A on Schedule E, indicating a Form 1099 filing requirement