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[Rental Property Tax Losses Hard to Deduct](#)

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As a general rule, tax losses from rental properties are treated as passive activity income. This means such losses are only deductible to the extent you have income from sources in which you do not "materially participate". Material participation is broadly defined as whether taxpayer is personally involved in its management or operation on a regular basis throughout each tax year.

However, the problem arises when rental property owners have little or no other passive activities to take advantage of the passive activity losses. As such, rental property owners may have to carry their losses to their future years or wait to sell their property.

Nonetheless, the hope is not lost; there are a few exceptions:

1. Active Landlords Exception

The most widely used exception is a \$25,000 deduction if:

1. Your Adjusted Gross Income (AGI) is not more than \$100,000. Note, the \$100,000 threshold applies to both single and married taxpayers. Note, if your income is between \$100,000 and \$150,000, this exception is phased out; **AND**
2. You actively participate in the business. Active participation includes: At least 10% stake in the property *AND* making management decisions, like approving tenants, signing leases, and authorizing repairs.

One caveat is if you use a management company to handle all the details of your rental properties, it is very likely to fail active participation test.

2. Real Estate Professionals Exception

This second exception only applies to real estate professionals. A real estate professional materially participates at least 750 hours, in a given year, in real estate activities.

Indeed, to pass the material participation test, such real estate professional should spend more than half the time of his/her overall work on material participation in real estate activities. To simplify this exception, if any of the following three tests is passed, the taxpayer *might* be able to deduct such losses in the year incurred:

1. If real estate professional spends more time than anybody else in total on the rental property; OR
2. If real estate professional spends at least 100 hours on the rental property and no one else spends more time on the rental property;OR
3. If real estate professional spends more than 500 hours on the rental property.

Do not forget material participation test is much harder to satisfy than active participation test outlined in exception 1.