

# How to Maximize Your Tax Deductions

Do you dread tax time? You don't have to. Most real estate investors actually look forward to April 15<sup>th</sup>. Why? Because despite the current condition of our housing and mortgage industries, real estate provides more tax benefits than almost any other investment. And maximizing your tax deductions only makes good business sense. That being said, let's take a look at 10 of the best tax deductions available to you as an owner of investment property:

## 1. Mortgage Interest

Interest might be your single biggest deductible expense. Common examples of interest that landlords can deduct include mortgage interest payments on loans used to acquire or improve rental property and interest on credit cards for goods or services used in a rental activity. (Any points or closing costs paid on a mortgage loan secured by an income-producing property are also deductible.)

## 2. Depreciation

Depreciation is the loss in value of an asset or building over time due to wear and tear, physical deterioration and age. The IRS allows you to depreciate income-producing properties over their useful life (27.5 years for residential and 39 years for commercial). You'll be thankful every year at tax time if you use depreciation correctly.

## 3. Insurance

You can deduct the premiums you pay for almost any insurance for your rental activity. This includes fire, theft, and flood insurance for rental property, as well as landlord liability insurance. And if you happen to have employees, you can deduct the cost of their health and workers' compensation insurance.

## 4. Homeowner's Association (HOA) Dues

Yep, that's right. If you own a real estate investment property within a subdivision that charges those annoying quarterly HOA fees, you can write those off your taxes.

## 5. Repairs

The cost of repairs to rental property is fully deductible in the year they are incurred. Good examples of deductible repairs include repainting, new flooring, fixing leaks, plastering, and replacing broken windows.

## 6. Personal Property

This includes such items as furniture, appliances, lawn mowers, snow removal equipment, etc. which are not permanently attached to the land.

## 7. Home Office

Provided they meet certain minimal requirements, you may deduct your home office expenses. This deduction applies not only to space devoted to office work, but also to a workshop or any other home workspace you use for your rental business.

## **8. Travel**

Landlords are entitled to a tax deduction whenever they drive anywhere for their rental activity. For example, when you drive to your rental building to deal with a tenant complaint or go to the hardware store to purchase a part for a repair, you can deduct your travel expenses.

And believe it or not, you can even deduct your long distance travel! If you travel overnight for your rental activity, you can deduct your airfare, hotel bills, meals, and other expenses. If you plan your trip carefully, you can even mix business with pleasure and still take a deduction!

## **9. Employees and Independent Contractors**

Whenever you hire anyone to perform services on your investment property, you can deduct their wages as a rental business expense. This is true whether the worker is an employee (for example, a resident manager of an apartment complex) or an independent contractor (for example, a repair person or maintenance guy).

## **10. Legal and Professional Services**

Finally, you can deduct fees that you pay to attorneys, accountants, property management companies, real estate investment advisors, and other professionals. You can deduct these fees as operating expenses as long as the fees are paid for work related to your rental activity.