

# Taxes for Real Estate Professionals

Integrity in Tax & Accounting

920-277-2991

[www.integrityintaxllc.com](http://www.integrityintaxllc.com)

*May 2019 ~ WiscoREIA*

By Tina M. Kleckner EA, CAA

Thank you!

To all the WiscoReia Members for choosing us for your tax, cost segregation, and bookkeeping provider! We love working with you!

*Ins & Outs of the Cost Segregation Study*

For those that own rental property, there is no better time than now to purchase properties, grow your passive income and

***Happy Spring! Great time to purchase rentals!***

Prior Month's Newsletters are available on our website at [www.integrityintaxllc.com](http://www.integrityintaxllc.com) – click on Real Estate Professionals.

Would you like to receive this Newsletter by email each month? Email us at [info@integrityintaxllc.com](mailto:info@integrityintaxllc.com) to be added to our distribution list.



maximize your depreciation deduction. In this newsletter edition, we are going to look at what depreciation is, how it benefits your tax return, and what a cost segregation study is on your property and how it can benefit you. To start, when real property is owned as an investment or business purpose, depreciation is a deduction that is taken on your tax return, which reduces the

*Standard Mileage Rates 2019*

• • •

Business = \$0.58

Medical = \$0.20

Charity = \$0.14

• • •

*Tax Reform*

\* Standard Deduction:

\$12,000 Single

\$24,000 Married Filing Joint

\$18,000 Head of Household

\* Personal Exemption is eliminated for Tax Years 2018 - 2025.

\* Child Tax Credit:

Increase to \$2,000 per child under age 17. Dependents over age 17 may qualify for \$500 credit.

• • •

Address:

213 S. Casaloma Drive

Appleton, WI 54914

920-277-2991

net profit from the investment or business, and ultimately reduces your taxable income.



### **What is Depreciation?**

Depreciation is an annual deduction on your tax return that is reported in the same manner as other expenses. For rental property, generally when a property is purchased the cost to purchase is depreciated over 27.5 years. For example, say you purchase a property for \$80,000 of which the land value is \$10,000. The purchase of the real property is valued at \$70,000 and this amount is depreciated or deducted annually over 27.5 years. When a property is purchased, the purchase price can be allocated to the cost of real property (structure), and personal property (appliances, flooring, cabinets) which can be depreciated over shorter time periods. Personal property includes items such as appliances, carpeting, improvements, etc.



### **How do I take Depreciation on my tax return?**

For residential rental property, depreciation is reported on the Schedule E of your tax

return by calculation on Form 4562.

### **How does Depreciation benefit me?**

Depreciation is reported as an expense of the rental property, thus reducing the net profit or increasing the loss of the rental property for the year.



### **What is a Cost Segregation Study?**

Thanks to the new tax law, depreciation on residential rental property can be accelerated. This means, you can take more depreciation in the early years that you own the property. To do this, we recommend having a professional Residential Cost Segregation Study performed on the property. This study identifies and separates the property of the home into real property vs. personal property. The personal property is then assigned to shorter life-spans and depreciated over less than 27.5 years.

This accelerated depreciation, known in the tax code as Bonus Depreciation, is only available until 2022 at 100%. Then, it phases-out until 2026.



### **What is the purpose of a Cost Segregation Study?**

The purpose is to identify property that can be depreciated over a shorter life-span than 27.5 years, thus giving you a larger depreciation deduction on your tax return in the early years of owning the property. This in turn, reduces the net profit or increased the loss of the property.



### **How do I get a Cost Segregation Study done on my property?**

The process is very easy and simple. All you need to do is contact Tina to start the process. We will then ask you some general information about the property and request payment upfront. Then, we will send you a link to add additional details and information about the property. The information is quite simple and easy. This should only take you about 15 minutes to complete. After you have completed, we will review and submit the information to be analyzed. Upon receiving the result, we assemble a packet for you and apply the accelerated depreciation to your tax return.

• • •

**Who Performs the Cost Segregation Study?** We are partnering with KBKG which has Engineers that have developed proprietary software that identifies real vs. personal property, and the property that is eligible for accelerated depreciation.

**What if the IRS or State audits the depreciation taken on my tax return?** In the event, the IRS or State challenges or audits the depreciation reported on your tax return as a direct result of the cost segregation study, you have both Integrity in Tax & Accounting, LLC and KBKG that will provide audit services to you at no charge.

**Example:** We have an example in the simplest format just to illustrate how the cost segregation study will impact the depreciation that is reported on your tax return. Tom & Joan have W-2 income of \$50,000. In addition, they own 2 rental properties.

Before a cost segregation study is performed, depreciation reported in Year 1 is \$5,332 on their tax return.

After a cost segregation study is performed, depreciation

reported in Year 1 is \$19,072 on their tax return.

The additional depreciation reduces the taxable income from \$23,978 to \$12,458 resulting in a tax refund of \$3,252 as opposed to tax due of \$2,496.

• • •

### Register Your Vacation Rental for WI Sales Tax

The lodging marketplace and short-term rental for rent of less than 29 days, are required to do the following:

- Register with WI DOR for lodging marketplace license
- Register for sellers permit, collect and remit sales tax to DOR
- Collect applicable room taxes and remit to municipality

The license application is Form S-231.

Common questions regarding lodging marketplace in WI are at –

<https://www.revenue.wi.gov/>



[Pages/FAQS/Lodging-Marketplace-License-faq.aspx](#)

Check out our Website - We have a page on our website dedicated to Real Estate Professionals and taxes. On our website at [www.integrityintaxllc.com](http://www.integrityintaxllc.com) – click on Real Estate Professionals.

Follow Us on Social Media

Please Like and Follow us on Social Media!



Integrity in Tax & Accounting, LLC; Tina M. Kleckner



Integrity in Tax & Accounting, LLC



Tina Kleckner EA, CAA @Integrityintax

Blog

Tina's Blog can be found on our website at [www.integrityintaxllc.com](http://www.integrityintaxllc.com) – click on Tina's Blog.