Topic 415 - Renting Residential and Vacation Property (formerly Renting Vacation Property and Renting to Relatives)

If you receive rental income from renting a dwelling unit, such as a house or an apartment, you may deduct certain expenses. These expenses, which may include mortgage interest, real estate taxes, casualty losses, maintenance, utilities, insurance, and depreciation, will reduce the amount of rental income that is taxed. You will generally report such income and expenses on Form 1040 (PDF) and Form 1040, Schedule E (PDF). If you are renting to make a profit and do not use the dwelling unit as a personal residence, then your deductible rental expenses may be more than your gross rental income. Your rental losses, however, generally will be limited by the "at-risk" rules and/or the passive activity loss rules. For information on these limits, refer to Publication 925, *Passive Activities and At-Risk Rules*.

If you rent a dwelling unit to others that you also use as a personal residence, then your deductible rental expenses may be limited. You are considered to use a dwelling unit as a personal residence if you use it for personal purposes during the tax year for more than the greater of: 14 days or 10% of the total days it is rented to others at a fair rental price. It is possible that you will use more than one dwelling unit as a personal residence during the year. For example, if you live in your main home for 11 months, your home is a dwelling unit used as a personal residence. If you live in your vacation home for the other 30 days of the year, your vacation home is also a dwelling unit used as a personal residence unless you rent your vacation home to others at a fair rental value for 300 or more days during the year.

A day of personal use of a dwelling unit is any day that it is used by:

- You or any other person who has an interest in it, unless you rent your interest to another owner as his or her main home under a shared equity financing agreement
- A member of your family or of a family of any other person who has an interest in it, unless the family member uses it as his or her main home and pays a fair rental price
- Anyone under an agreement that lets you use some other dwelling unit
- Anyone at less than fair rental price

If you use the dwelling unit for both rental and personal purposes, you generally must divide your total expenses between the rental use and the personal use based on the number of days used for each purpose. However, you will not be able to deduct your rental expense in excess of the gross rental income limitation (your gross rental income less the rental portion of mortgage interest, real estate taxes, and casualty losses, and rental expenses like realtors' fees and advertising costs). However, you may be able to carry forward some of these rental expenses to the next year, subject to the gross rental income limitation for that year. If you itemize your deductions on Form 1040, Schedule A, you may still be able to deduct your personal portion of mortgage interest, property taxes, and casualty losses on that schedule.

There is a special rule if you use a dwelling unit as a personal residence and rent it for fewer than 15 days. In this case, do not report any of the rental income and do not deduct any expenses as rental expenses.

Another special rule applies if you rent part of your home to your employer and provide services for your employer in that rented space. In this case, report the rental income, but do not deduct any expenses as rental expenses.

For more information on offering residential property for rent, refer to Publication 527, *Residential Rental Property (Including Rental of Vacation Homes)*.

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