(Buyer Article)

Real Estate Investing and Taxes

Tax incentives for real estate investors can often make the difference in your tax rates. Deductions for rental property can often be used to offset wage income. Tax breaks can often enable investors to turn a loss into a profit. For which items can investors get tax breaks? You could claim deductions for actual costs you incur for financing, managing and operating the rental property. This includes mortgage interest payments, real estate taxes, insurance, maintenance, repairs, property management fees, travel, advertising, and utilities (assuming the tenant doesn't pay them). These expenses can be subtracted from your adjusted gross income when determining your personal income taxes. Of course, these deductions cannot exceed the amount of real estate income you receive.

In addition to deductions for operating costs, you can also receive breaks for depreciation. Buildings naturally deteriorate over time, and these "losses" can be deducted regardless of the actual market value of the property. Because depreciation is a non-cash expense -- you are not actually spending any money -- the tax code can get a bit tricky. For more information about depreciation and various tax alternatives, ask your tax advisor about Section 1031 of the U.S. Tax Code.

Try to get close to a positive cash flow. There are two kinds of positive cash flows: pre-tax and after-tax. A pre-tax positive cash flow occurs when income received is greater than expenses incurred. This sort of situation is difficult to find, but they are usually a strong and safe investment. An after-tax positive cash flow may have expenses that outweigh collected income, but various tax breaks allow for a positive cash flow. This is more common, but it is generally not as strong or safe as a pre-tax positive cash flow. Regardless of what kind of real estate you choose to invest in, timely collections from your tenants is absolutely necessary. A positive cash flow -- whether it be pre-tax or after-tax -- requires rental income. Be sure to find quality tenants; a thorough credit and employment check is probably a good idea.

When is the best time to sell? When your future equity reaches your target amount. Equity is the difference between the actual worth of the property and the balanced owed on the mortgage. While investing in real estate is relatively complex, it is often worth the extra work. When compared to other financial investments, like bonds or CD's, the return on investment for real estate purchases can often be greater. The key to real estate investing is equity. Determine an amount of equity that you want to achieve. When you reach your goal, it's time to sell or refinance. It would be beneficial to consult with a real estate professional to arrive at a reasonable equity target.

Thanks for visiting, let me know if I can be of assistance!   Mary “B” 512-787-6787)