Income Tax

2023-2024

Rental Property – Renting Part of Property & Change to Rental Use Example

Condominiums

A condominium is most often a dwelling unit in a multi-unit building, but can also take other forms, such as a town-house or garden apartment.

If you own a condominium, you also own a share of the common elements, such as land, lobbies, elevators, and service areas. You and the other condominium owners may pay dues or assessments to a special corporation that is organized to take care of the common elements.

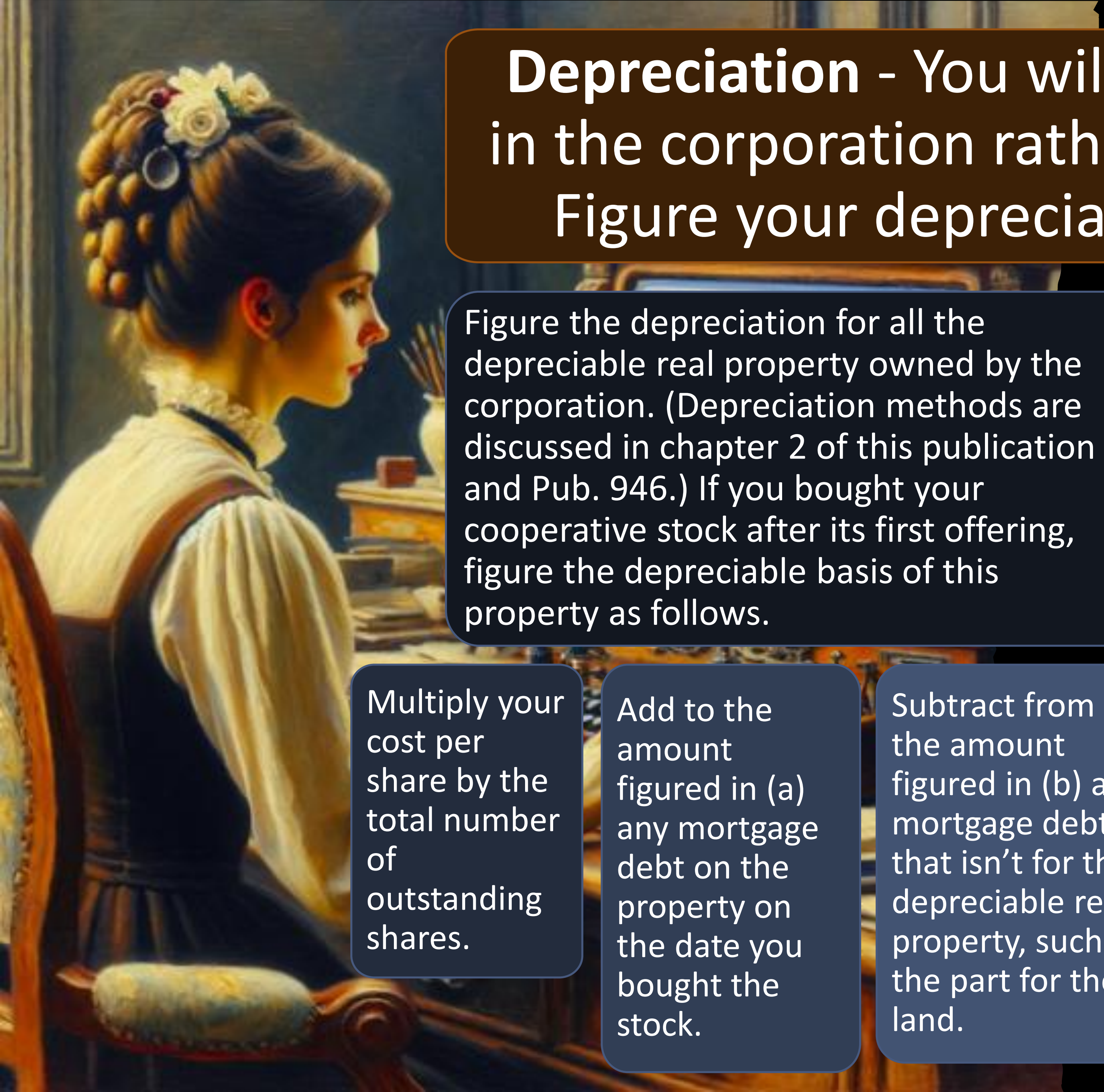
Special rules apply if you rent your condominium to others. You can deduct as rental expenses all the expenses discussed in chapters 1 and 2. In addition, you can deduct any dues or assessments paid for maintenance of the common elements.

You can't deduct special assessments you pay to a condominium management corporation for improvements. However, you may be able to recover your share of the cost of any improvement by taking depreciation.

Cooperatives

If you live in a cooperative, you don't own your apartment. Instead, a corporation owns the apartments and you are a tenant-stockholder in the cooperative housing corporation. If you rent your apartment to others, you can usually deduct, as a rental expense, all the maintenance fees you pay to the cooperative housing corporation.

In addition to the maintenance fees paid to the cooperative housing corporation, you can deduct your direct payments for repairs, upkeep, and other rental expenses, including interest paid on a loan used to buy your stock in the corporation.



Depreciation - You will be depreciating your stock in the corporation rather than the apartment itself. Figure your depreciation deduction as follows.

Figure the depreciation for all the depreciable real property owned by the corporation. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) If you bought your cooperative stock after its first offering, figure the depreciable basis of this property as follows.

Multiply your cost per share by the total number of outstanding shares.

Add to the amount figured in (a) any mortgage debt on the property on the date you bought the stock.

Subtract from the amount figured in (b) any mortgage debt that isn’t for the depreciable real property, such as the part for the land.

Subtract from the amount figured in (1) any depreciation for space owned by the corporation that can be rented but can’t be lived in by tenant-stockholders

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the result of (2) by the percentage you figured in (3). This is your depreciation on the stock.

Your depreciation deduction for the year can’t be more than the part of your adjusted basis (defined in chapter 2) in the stock of the corporation that is allocable to your rental property.

Payments added to capital account.

Payments ear-marked for a capital asset or improvement, or otherwise charged to the corporation's capital account, are added to the basis of your stock in the corporation.

For example, you can't deduct a payment used to pave a community parking lot, install a new roof, or pay the principal of the corporation's mortgage.

Treat as a capital cost the amount you were assessed for capital items.

This can't be more than the amount by which your payments to the corporation exceeded your share of the corporation's mortgage interest and real estate taxes.

Your share of interest and taxes is the amount the corporation elected to allocate to you, if it reasonably reflects those expenses for your apartment. Otherwise, figure your share in the following manner.

Divide the number of your shares of stock by the total number of shares outstanding, including any shares held by the corporation.

Multiply the corporation's deductible interest by the number you figured in (1). This is your share of the interest.

Multiply the corporation's deductible taxes by the number you figured in (1). This is your share of the taxes.

Property Changed to Rental Use

If you change your home or other property (or a part of it) to rental use at any time other than the beginning of your tax year, you must divide yearly expenses, such as taxes and insurance, between rental use and personal use.

You can deduct as rental expenses only the part of the expense that is for the part of the year the property was used or held for rental purposes.

You can’t deduct depreciation or insurance for the part of the year the property was held for personal use. However, you can include the home mortgage interest and real estate tax expenses for the part of the year the property was held for personal use when figuring the amount you can deduct on Schedule A.

Example.

Your tax year is the calendar year. You moved from your home in May and started renting it out on June 1. You can deduct as rental expenses seven-twelfths of your yearly expenses, such as taxes and insurance.

Starting with June, you can deduct as rental expenses the amounts you pay for items generally billed monthly, such as utilities.

When figuring depreciation, treat the property as placed in service on June 1.

Basis of Property Changed to Rental Use

- When you change property you held for personal use to rental use (for example, you rent your former home), the basis for depreciation will be the lesser of the FMV or adjusted basis on the date of conversion.

FMV.

This is the price at which the property would change hands between a willing buyer and a willing seller, neither having to buy or sell, and both having reasonable knowledge of all the relevant facts. Sales of similar property, on or about the same date, may be helpful in figuring the FMV of the property.

Figuring the basis.

The basis for depreciation is the lesser of:

The FMV of the property on the date you changed it to rental use; or

Your adjusted basis on the date of the change—that is, your original cost or other basis of the property, plus the cost of permanent additions or improvements since you acquired it, minus deductions for any casualty or theft losses claimed on earlier years' income tax returns and other decreases to basis. For other increases and decreases to basis, see *Adjusted Basis* in chapter 2.

Example.

You originally built a house for $140,000 on a lot that cost you $14,000, which you used as your home for many years. Before changing the property to rental use this year, you added $28,000 of permanent improvements to the house and claimed a $3,500 casualty loss deduction for damage to the house.

Part of the improvements qualified for a $500 residential energy credit, which you claimed on a prior year tax return. Because land isn't depreciable, you can only include the cost of the house when figuring the basis for depreciation.

The adjusted basis of the house at the time of the change in its use was $164,000 ($140,000 + $28,000 − $3,500 − $500).

On the date of the change in use, your property had an FMV of $168,000, of which $21,000 was for the land and $147,000 was for the house.

The basis for depreciation on the house is the FMV on the date of the change ($147,000) because it is less than your adjusted basis ($164,000).

Cooperatives

If you change your cooperative apartment to rental use, figure your allowable depreciation as explained earlier. (Depreciation methods are discussed in chapter 2 of this publication and Pub. 946.) The basis of all the depreciable real property owned by the cooperative housing corporation is the smaller of the following amounts.

The FMV of the property on the date you change your apartment to rental use. This is considered to be the same as the corporation's adjusted basis minus straight line depreciation, unless this value is unrealistic.

The corporation's adjusted basis in the property on that date. Don’t subtract depreciation when figuring the corporation's adjusted basis.

If you bought the stock after its first offering, the corporation's adjusted basis in the property is the amount figured in (1) under *Depreciation*, earlier.

The FMV of the property is considered to be the same as the corporation's adjusted basis figured in this way minus straight line depreciation, unless the value is unrealistic.

Figuring the Depreciation Deduction

- To figure the deduction, use the depreciation system in effect when you convert your residence to rental use. Generally, that will be MACRS for any conversion after 1986. Treat the property as placed in service on the conversion date.

Example.

- Your converted residence (see the previous example under *Figuring the basis*, earlier) was available for rent on August 1.
- Using Table 2-2d (see chapter 2), the percentage for Year 1 beginning in August is 1.364% and the depreciation deduction for Year 1 is $2,005 ($147,000 × 1.364% (0.01364)).

Renting Part of Property

If you rent part of your property, you must divide certain expenses between the part of the property used for rental purposes and the part of the property used for personal purposes, as though you actually had two separate pieces of property.

You can deduct the expenses related to the part of the property used for rental purposes, such as home mortgage interest and real estate taxes, as rental expenses on Schedule E (Form 1040).

You can also deduct as rental expenses a portion of other expenses that are normally nondeductible personal expenses, such as expenses for electricity or painting the outside of the house.

There is no change in the types of expenses deductible for the personal-use part of your property. Generally, these expenses may be deducted only if you itemize your deductions on Schedule A (Form 1040).

You can’t deduct any part of the cost of the first phone line even if your tenants have unlimited use of it.

You don’t have to divide the expenses that belong only to the rental part of your property. For example, if you paint a room that you rent or pay premiums for liability insurance in connection with renting a room in your home, your entire cost is a rental expense.

If you install a second phone line strictly for your tenant's use, all the cost of the second line is deductible as a rental expense. You can deduct depreciation on the part of the house used for rental purposes as well as on the furniture and equipment you use for rental purposes.

How to divide expenses.

If an expense is for both rental use and personal use, such as mortgage interest or heat for the entire house, you must divide the expense between rental use and personal use. You can use any reasonable method for dividing the expense.

It may be reasonable to divide the cost of some items (for example, water) based on the number of people using them.

The two most common methods for dividing an expense are (1) the number of rooms in your home, and (2) the square footage of your home.

Example.

You rent a room in your house. The room is 12 × 15 feet, or 180 square feet. Your entire house has 1,800 square feet of floor space. You can deduct as a rental expense 10% of any expense that must be divided between rental use and personal use.

If your heating bill for the year for the entire house was $600, $60 ($600 × 10% (0.10)) is a rental expense. The balance, $540, is a personal expense that you can't deduct.

Duplex.

- A common situation is the duplex where you live in one unit and rent out the other. Certain expenses apply to the entire property, such as mortgage interest and real estate taxes, and must be split to determine rental and personal expenses.

Example.

You own a duplex and live in one half, renting out the other half. Both units are approximately the same size. Last year, you paid a total of $10,000 mortgage interest and $2,000 real estate taxes for the entire property.

You can deduct $5,000 mortgage interest and $1,000 real estate taxes on Schedule E. If you itemize your de-ductions, include the other $5,000 mortgage interest and $1,000 real estate taxes when figuring the amount you can deduct on Schedule A.

Not Rented for Profit

If you don't rent your property to make a profit, you can't deduct rental expenses in excess of the amount of your rental income.

You can't deduct a loss or carry forward to the next year any rental expenses that are more than your rental income for the year.

Where to report.

- Report your not-for-profit rental income on Schedule 1 (Form 1040), line 8j. If you itemize your de-ductions, include your mortgage interest (if you use the property as your main home or second home), real estate taxes, and casualty losses from your not-for-profit rental activity when figuring the amount you can deduct on Schedule A.

Presumption of profit.

- If your rental income is more than your rental expenses for at least 3 years out of a period of 5 consecutive years, you are presumed to be renting your property to make a profit.

Postponing decision.

If you are starting your rental activity and don't have 3 years showing a profit, you can elect to have the presumption made after you have the 5 years of experience required by the test. You may choose to postpone the decision of whether the rental is for profit by filing Form 5213.

You must file Form 5213 within 3 years after the due date of your return (determined without extensions) for the year in which you first carried on the activity or, if earlier, within 60 days after receiving written notice from the IRS proposing to disallow deductions attributable to the activity.

Example—Property Changed to Rental Use

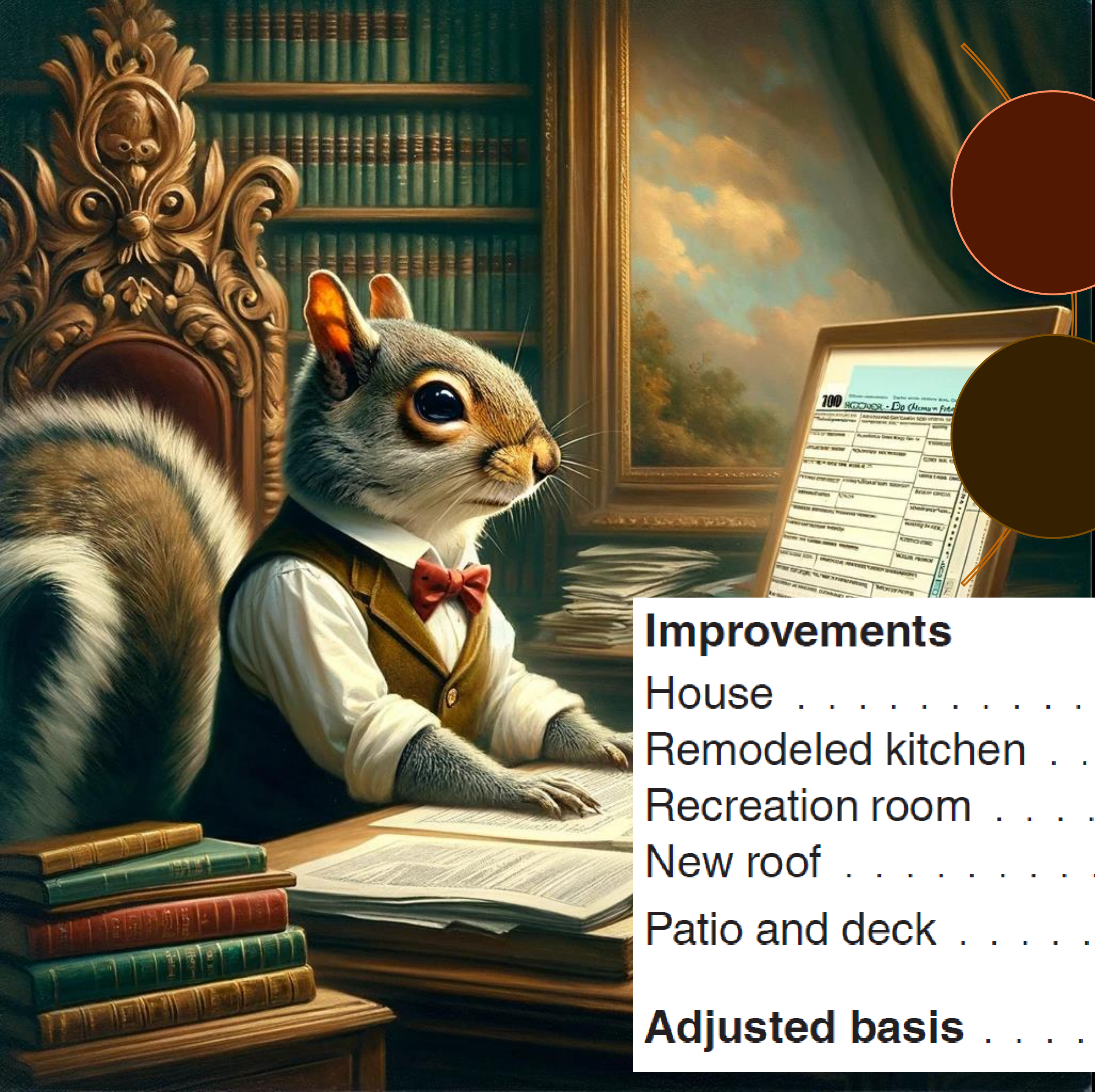
In January, you bought a condominium apartment to live in. Instead of selling the house you had been living in, you decided to change it to rental property. You selected a tenant and started renting the house on February 1.

You charge $750 a month for rent and collect it yourself. You also received a $750 security deposit from your tenant. Because you plan to return it to your tenant at the end of the lease, you don't include it in your income. Your rental expenses for the year are as follows.

Mortgage interest	$1,800
Fire insurance (1-year policy)	100
Miscellaneous repairs (after renting)	297
Real estate taxes imposed and paid	1,200

You must divide the real estate taxes, mortgage interest, and fire insurance between the personal use of the property and the rental use of the property. You can deduct eleven-twelfths of these expenses as rental expenses.

You can include the balance of the real estate taxes and mortgage interest when figuring the amount you can deduct on Schedule A if you itemize. You can’t deduct the balance of the fire insurance because it is a personal expense.



You bought this house in 2008 for $35,000. Your property tax was based on assessed values of $10,000 for the land and $25,000 for the house.

Before changing it to rental property, you added several improvements to the house. You figure your adjusted basis as follows.

Improvements	**Cost**
House	$25,000
Remodeled kitchen	4,200
Recreation room	5,800
New roof	1,600
Patio and deck	2,400
Adjusted basis	$39,000

On February 1, when you changed your house to rental property, the property had an FMV of $152,000. Of this amount, $35,000 was for the land and $117,000 was for the house.

Because your adjusted basis is less than the FMV on the date of the change, you use $39,000 as your basis for depreciation.

As specified for residential rental property, you must use the straight line method of depreciation over the GDS or ADS recovery period. You choose the GDS recovery period of 27.5 years.

You use Table 2-2d to find your depreciation percentage. Because you placed the property in service in February, the percentage is 3.182%.

On April 1, you bought a new dishwasher for the rental property at a cost of $425. The dishwasher is personal property used in a rental real estate activity, which has a 5-year recovery period. You use Table 2-2a to find the depreciation percentage for Year 1 under “Half-year convention” (20%) to figure your depreciation deduction.

On May 1, you paid $4,000 to have a furnace installed in the house. The furnace is residential rental property. Because you placed the property in service in May, the depreciation percentage from Table 2-2d is 2.273%.

You figured your net rental income or loss for the house as follows.

Total rental income received ($750 × 11)		$8,250
Minus: Expenses		
Mortgage interest ($1,800 × 11/12)	$1,650	
Fire insurance ($100 × 11/12)	92	
Miscellaneous repairs	297	
Real estate taxes ($1,200 × 11/12)	1,100	
Total expenses		3,139
Balance		$5,111
Minus: Depreciation		
House ($39,000 × 0.03182)	$1,241	
Dishwasher ($425 × 0.20)	85	
Furnace ($4,000 × 0.02273)	91	
Total depreciation		1,417
Net rental income for house		$3,694

You use Schedule E, Part I, to report your rental income and expenses. You enter your income, expenses, and depreciation for the house in the column for Property A.

Because all property was placed in service this year, you must use Form 4562 to figure the depreciation. See the Instructions for Form 4562 for more information on preparing the form.

Personal Use of Dwelling Unit (Including Vacation Home)

If you have any personal use of a dwelling unit (including a vacation home) that you rent, you must divide your expenses between rental use and personal use.

In general, your rental expenses will be no more than your total expenses multiplied by a fraction, the denominator of which is the total number of days the dwelling unit is used and the numerator of which is the total number of days actually rented at a fair rental price.

Only your rental expenses may be deducted on Schedule E (Form 1040).

Some of your personal expenses may be deductible on Schedule A (Form 1040) if you itemize your deductions.

You must also determine if the dwelling unit is considered a home. The amount of rental expenses that you can de-duct may be limited if the dwelling unit is considered a home.

Whether a dwelling unit is considered a home depends on how many days during the year are considered to be days of personal use.

There is a special rule if you used the dwelling unit as a home and you rented it for less than 15 days during the year.

Dwelling unit.

A dwelling unit includes a house, apartment, condominium, mobile home, boat, vacation home, or similar property. It also includes all structures or other property belonging to the dwelling unit. A dwelling unit has basic living accommodations, such as sleeping space, a toilet, and cooking facilities.

A dwelling unit doesn’t include property (or part of the property) used solely as a hotel, motel, inn, or similar establishment. Property is used solely as a hotel, motel, inn, or similar establishment if it is regularly available for occupancy by paying customers and isn’t used by an owner as a home during the year.

Example.

You rent a room in your home that is always available for short-term occupancy by paying customers.

You don’t use the room yourself and you allow only paying customers to use the room.

This room is used solely as a hotel, motel, inn, or similar establishment and isn’t a dwelling unit.

Dividing Expenses

If you use a dwelling unit for both rental and personal purposes, divide your expenses between the rental use and the personal use based on the number of days used for each purpose. When dividing your expenses, follow these rules.

Any day that the unit is rented at a fair rental price is a day of rental use even if you used the unit for personal purposes that day. (This rule doesn’t apply when determining whether you used the unit as a home.)

Any day that the unit is available for rent but not actually rented isn’t a day of rental use.

Fair rental price.

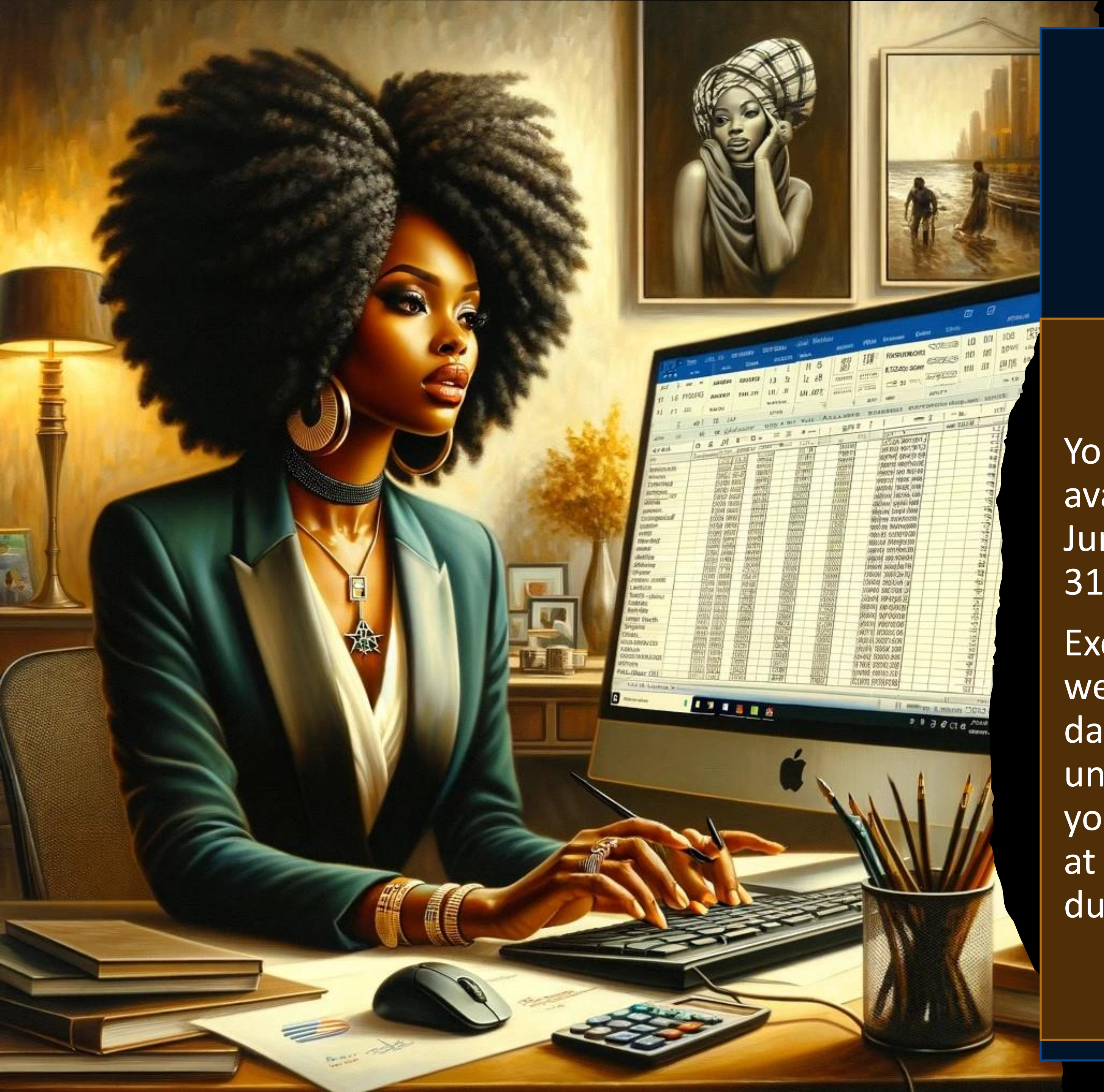
A fair rental price for your property is generally the amount of rent that a person who isn't related to you would be willing to pay.

The rent you charge isn't a fair rental price if it is substantially less than the rents charged for other properties that are similar to your property in your area.

Ask yourself the following questions when comparing another property with yours.

- Is it used for the same purpose?
- Is it approximately the same size?
- Is it in approximately the same condition?
- Does it have similar furnishings?
- Is it in a similar location?

If any of the answers are no, the properties probably aren't similar.



Example.

Your beach cottage was available for rent from June 1 through August 31 (92 days).

Except for the first week in August (7 days), when you were unable to find a renter, you rented the cottage at a fair rental price during that time.

The person who rented the cottage for July allowed you to use it over the weekend (2 days) without any reduction in or refund of rent.

Your family also used the cottage during the last 2 weeks of May (14 days). The cottage wasn’t used at all before May 17 or after Au-gust 31.

You figure the part of the cottage expenses to treat as rental expenses as follows.

The cottage was used for rental a total of 85 days (92 − 7). The days it was available for rent but not rented (7 days) aren’t days of rental use. The July weekend (2 days) you used it is rental use because you received a fair rental price for the weekend.

You used the cottage for personal purposes for 14 days (the last 2 weeks in May).

The total use of the cottage was 99 days (14 days per-sonal use + 85 days rental use).

Your rental expenses are 85/99 (86%) of the cottage expenses.

Note.

When determining whether you used the cottage as a home, the July weekend (2 days) you used it is considered personal use even though you received a fair rental price for the weekend.

Therefore, you had 16 days of personal use and 83 days of rental use for this purpose. Because you used the cottage for personal purposes more than 14 days and more than 10% of the days of rental use (8 days), you used it as a home.

If you have a net loss, you may not be able to deduct all of the rental expenses. See *Dwelling Unit Used as a Home* next.

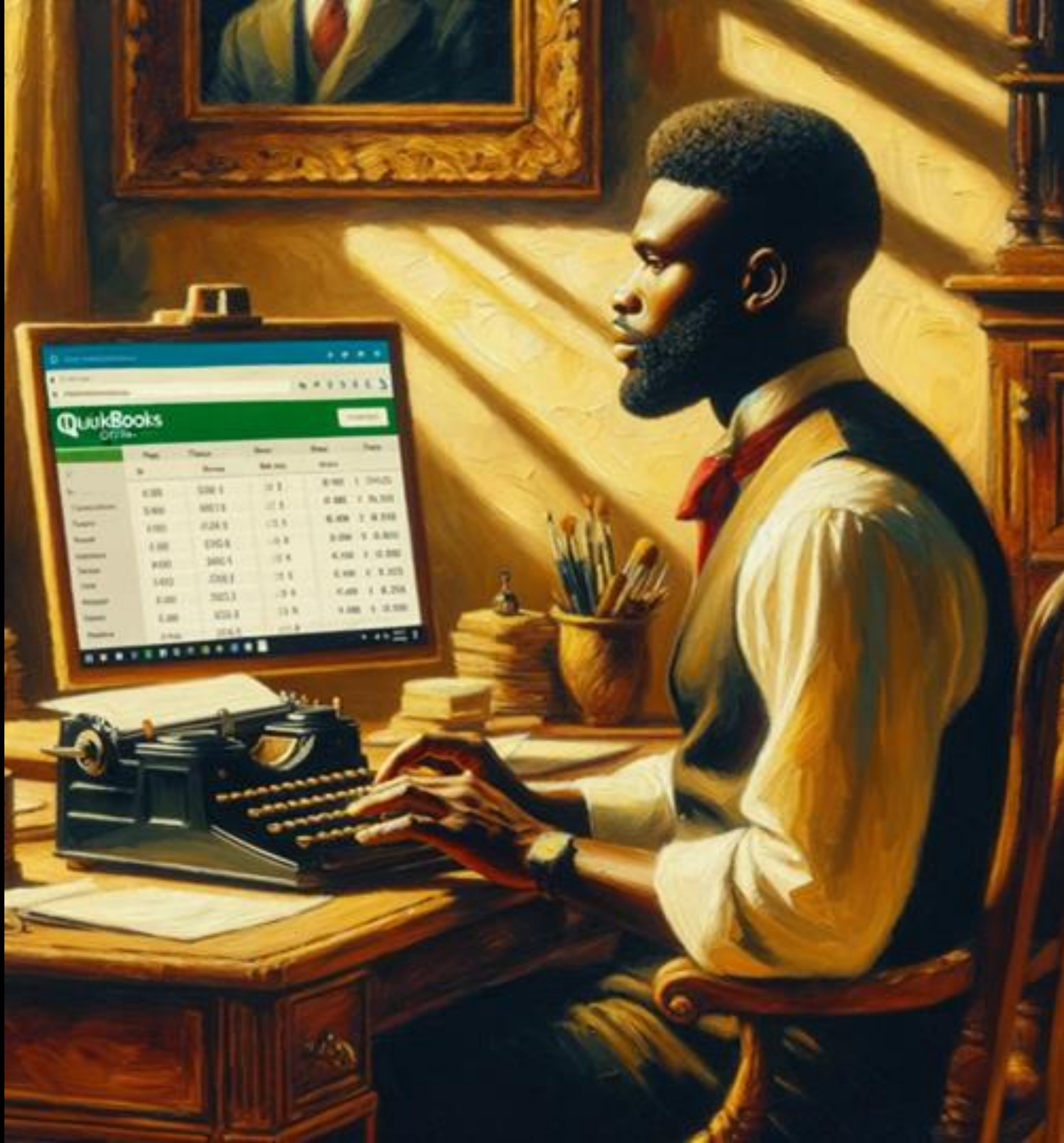
Dwelling Unit Used as a Home

- If you use a dwelling unit for both rental and personal purposes, the tax treatment of the rental expenses you figured earlier under *Dividing Expenses* and rental income depends on whether you are considered to be using the dwelling unit as a home.

You use a dwelling unit as a home during the tax year if you use it for personal purposes more than the greater of:

14 days, or	10% of the total days it is rented to others at a fair rental price.

If a dwelling unit is used for personal purposes on a day it is rented at a fair rental price (discussed earlier), don’t count that day as a day of rental use in applying (2) above. Instead, count it as a day of personal use in applying both (1) and (2) above.



What is a day of personal use?

A day of personal use of a dwelling unit is any day that the unit is used by any of the following persons.

- You or any other person who owns an interest in it, unless you rent it to another owner as their main home under a shared equity financing agreement (defined later). However, see *Days used as a main home before or after renting*, later.
- A member of your family or a member of the family of any other person who owns an interest in it, unless the family member uses the dwelling unit as their main home and pays a fair rental price. Family includes only your spouse, siblings, half siblings, ancestors (parents, grandparents, etc.), and lineal descendants (children, grandchildren, etc.).
- Anyone under an arrangement that lets you use some other dwelling unit.
- Anyone at less than a fair rental price.

Main home.

- If the other person or member of the family in (1) or (2) has more than one home, their main home are ordinarily the one they lived in most of the time.

Shared equity financing agreement.

- This is an agreement under which two or more persons acquire un-divided interests for more than 50 years in an entire dwelling unit, including the land, and one or more of the co-owners are entitled to occupy the unit as their main home upon payment of rent to the other co-owner(s).

Donation of use of the property.

You use a dwelling unit for personal purposes if:

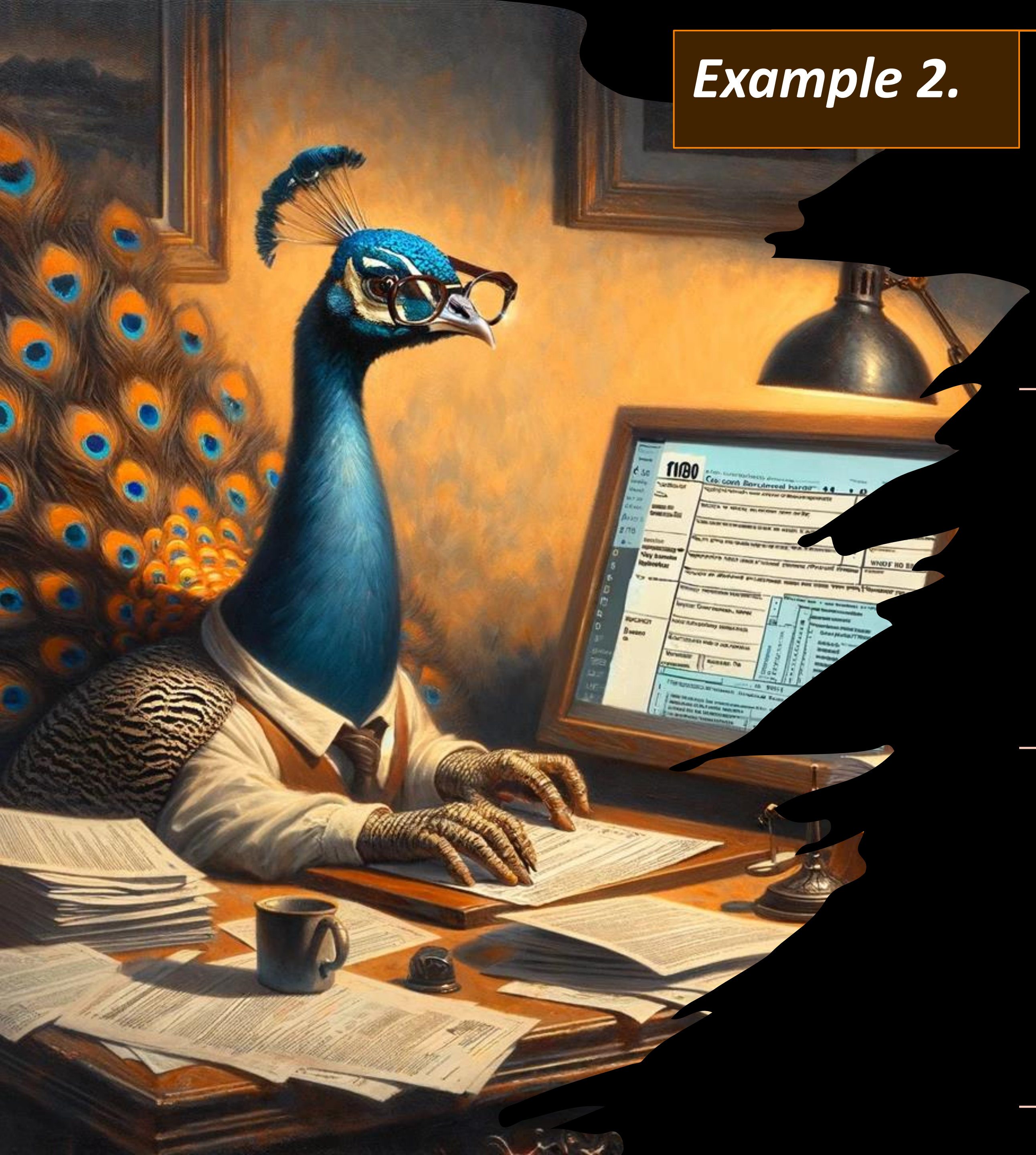
You donate the use of the unit to a charitable organization,	The organization sells the use of the unit at a fundraising event, and	The "purchaser" uses the unit.

Example 1.

You and your neighbor are co-owners of a condominium at the beach. Last year, you rented the unit to vacationers whenever possible.

The unit wasn't used as a main home by anyone. Your neighbor used the unit for 2 weeks last year; you didn't use it at all.

Because your neighbor has an interest in the unit, both of you are considered to have used the unit for personal purposes during those 2 weeks.



Example 2.

You and your neighbors are co-owners of a house under a shared equity financing agreement. Your neighbors live in the house and pay you a fair rental price.

Even though your neighbors have an interest in the house, the days your neighbors live there aren’t counted as days of personal use by you.

This is because your neighbors rent the house as their main home under a shared equity financing agreement.

Example 3.

You own a rental property that you rent to your son. Your son doesn’t own any interest in this property. He uses it as his main home and pays you a fair rental price.

Your son's use of the property isn’t personal use by you because your son is using it as his main home, he owns no interest in the property, and he is paying you a fair rental price.

Example 4.

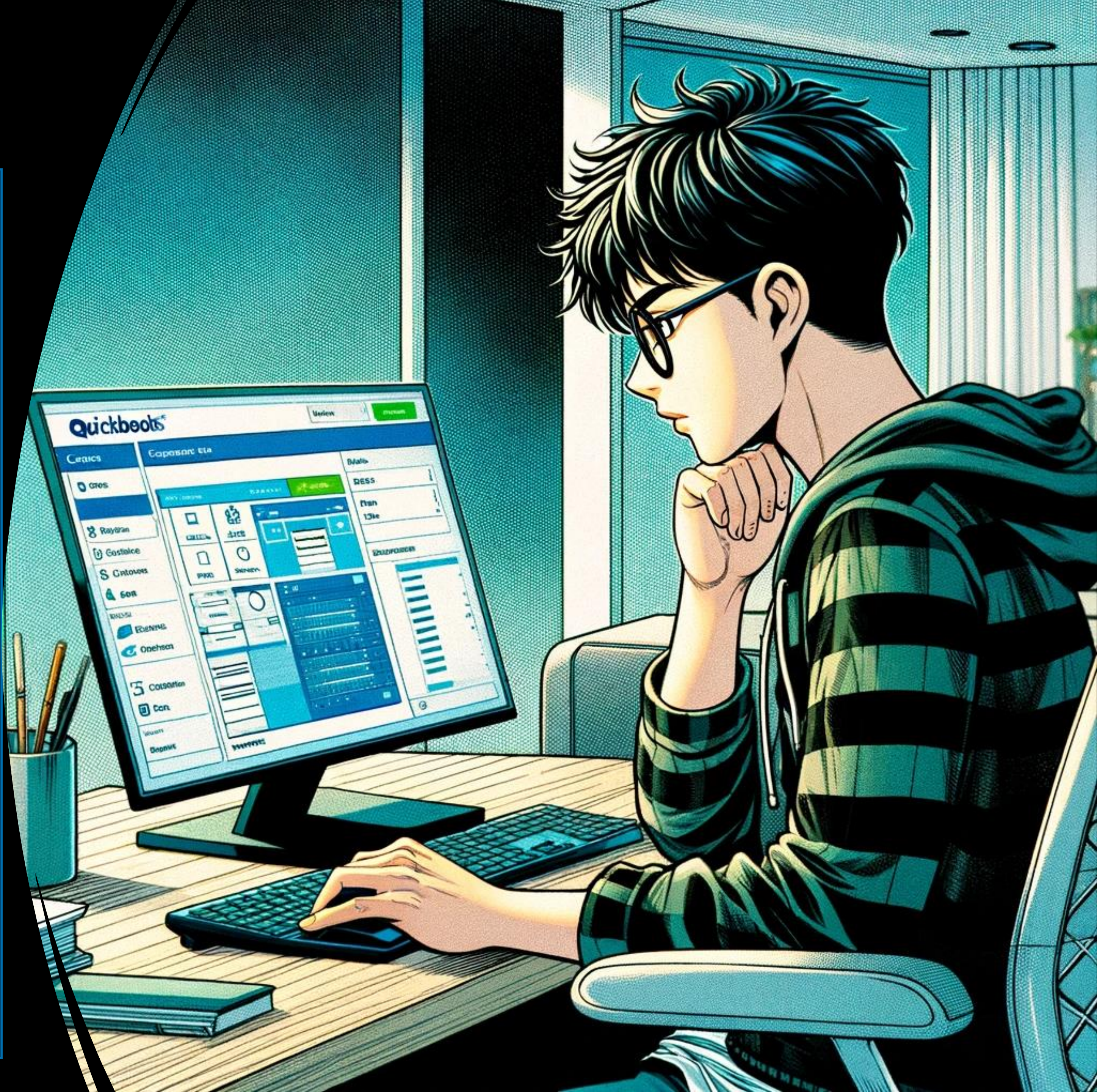
You rent your beach house to Rosa. Rosa rents her cabin in the mountains to you. You each pay a fair rental price.

You are using your beach house for personal purposes on the days that Rosa uses it because your house is used by Rosa under an arrangement that allows you to use her cabin.

Example 5.

You rent an apartment to your mother at less than a fair rental price.

You are using the apartment for personal purposes on the days that your mother rents it because you rent it for less than a fair rental price.



Days used for repairs and maintenance.

Any day that you spend working substantially full time repairing and maintaining (not improving) your property isn't counted as a day of personal use.

Don't count such a day as a day of personal use even if family members use the property for recreational purposes on the same day.

Example.

Corey owns a cabin in the mountains that he rents for most of the year. He spends a week at the cabin with family members.

Corey works on maintenance of the cabin 3 or 4 hours each day during the week and spends the rest of the time fishing, hiking, and relaxing.

Corey's family members, however, work substantially full time on the cabin each day during the week.

The main purpose of being at the cabin that week is to do maintenance work.

Therefore, the use of the cabin during the week by Corey and his family won’t be considered personal use by Corey.

Days used as a main home before or after renting.

For purposes of determining whether a dwelling unit was used as a home, you may not have to count days you used the property as your main home before or after renting it or offering it for rent as days of personal use. Don't count them as days of personal use if:

- You rented or tried to rent the property for 12 or more consecutive months, or
- You rented or tried to rent the property for a period of less than 12 consecutive months and the period ended because you sold or exchanged the property.

However, this special rule doesn't apply when dividing expenses between rental and personal use. See *Property Changed to Rental Use* in chapter 4.

Example 1.

On February 28, 2022, you moved out of the house you had lived in for 6 years because you accepted a job in another town. You rented your house at a fair rental price from March 15, 2022, to May 14, 2023 (14 months). On June 1, 2023, you moved back into your old house.

The days you used the house as your main home from January 1 to February 28, 2022, and from June 1 to December 31, 2023, aren't counted as days of personal use. Therefore, you would use the rules in chapter 1 when figuring your rental income and expenses.

Example 2.

On January 31, you moved out of the condominium where you had lived for 3 years.

You offered it for rent at a fair rental price beginning on February 1.

You were unable to rent it until April. On September 15, you sold the condominium.

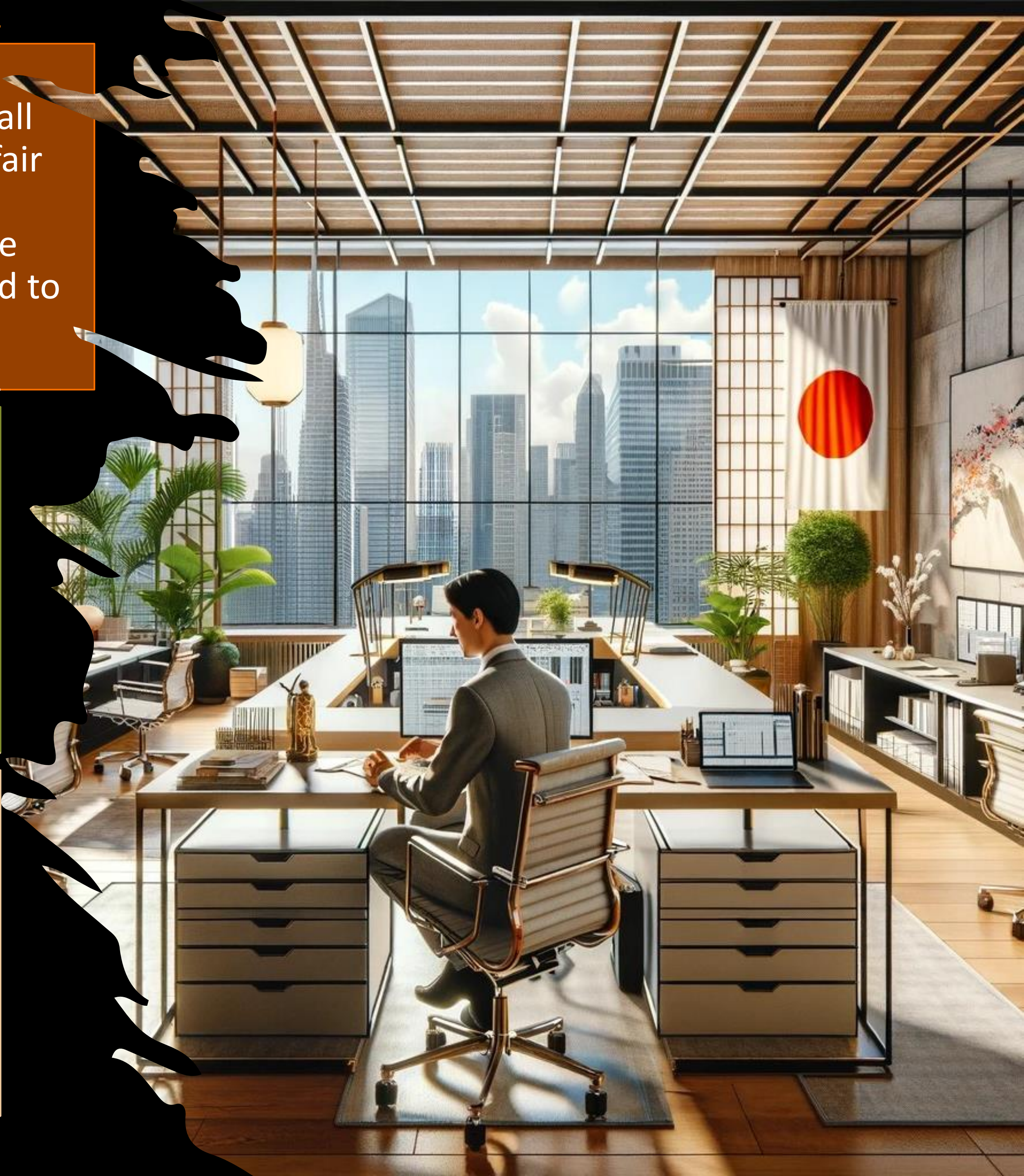
The days you used the condominium as your main home from January 1 to January 31 aren’t counted as days of personal use when determining whether you used it as a home.

Example 1.

You converted the basement of your home into an apartment with a bedroom, a bathroom, and a small kitchen. You rented the basement apartment at a fair rental price to college students during the regular school year. You rented to them on a 9-month lease (273 days). You figured 10% of the total days rented to others at a fair rental price is 27 days.

During June (30 days), your brothers stayed with you and lived in the basement apartment rent free.

Your basement apartment was used as a home because you used it for personal purposes for 30 days. Rent-free use by your brothers is considered personal use. Your personal use (30 days) is more than the greater of 14 days or 10% of the total days it was rented (27 days).



Example 2.

You rented the guest bedroom in your home at a fair rental price during the local college's homecoming, commencement, and football weekends (a total of 27 days).

Your sister-in-law stayed in the room rent free for the last 3 weeks (21 days) in July. You figured 10% of the total days rented to others at a fair rental price is 3 days.

The room was used as a home because you used it for personal purposes for 21 days. That is more than the greater of 14 days or 10% of the 27 days it was rented (3 days).

Example 3.

You own a condominium apartment in a resort area. You rented it at a fair rental price for a total of 170 days during the year. For 12 of these days, the tenant wasn't able to use the apartment and allowed you to use it even though you didn't refund any of the rent. Your family actually used the apartment for 10 of those days.

Therefore, the apartment is treated as having been rented for 160 (170 – 10) days. You figured 10% of the total days rented to others at a fair rental price is 16 days. Your family also used the apartment for 7 other days during the year.

You used the apartment as a home because you used it for personal purposes for 17 days. That is more than the greater of 14 days or 10% of the 160 days it was rented (16 days).

- If you use the dwelling unit as a home and you rent it less than 15 days during the year, that period isn't treated as rental activity. See *Used as a home but rented less than 15 days*, later, for more information.

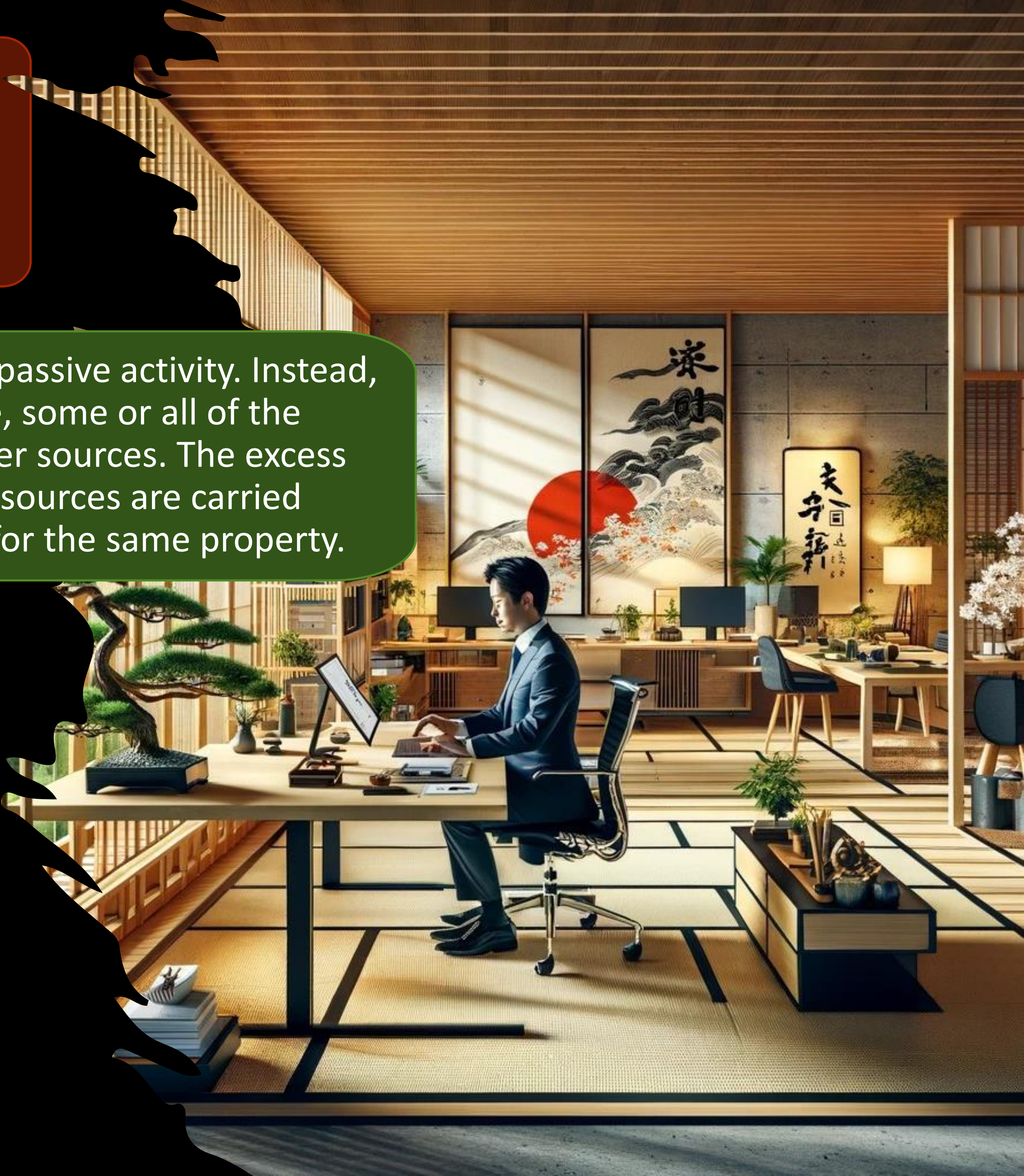
Minimal rental use.

Limit on deductions.

Renting a dwelling unit that is considered a home isn't a passive activity. Instead, if your rental expenses are more than your rental income, some or all of the excess expenses can't be used to offset income from other sources. The excess expenses that can't be used to offset income from other sources are carried forward to the next year and treated as rental expenses for the same property.

Any expenses carried forward to the next year will be subject to any limits that apply for that year. This limitation will apply to expenses carried forward to another year even if you don't use the property as your home for that subsequent year.

To figure your deductible rental expenses for this year and any carryover to next year, use Worksheet 5-1.



Reporting Income and Deductions

Property not used for personal purposes.

If you don't use a dwelling unit for personal purposes, see chapter 3 for how to report your rental income and expenses.

Property used for personal purposes.

If you do use a dwelling unit for personal purposes, then how you report your rental income and expenses depends on whether you used the dwelling unit as a home.

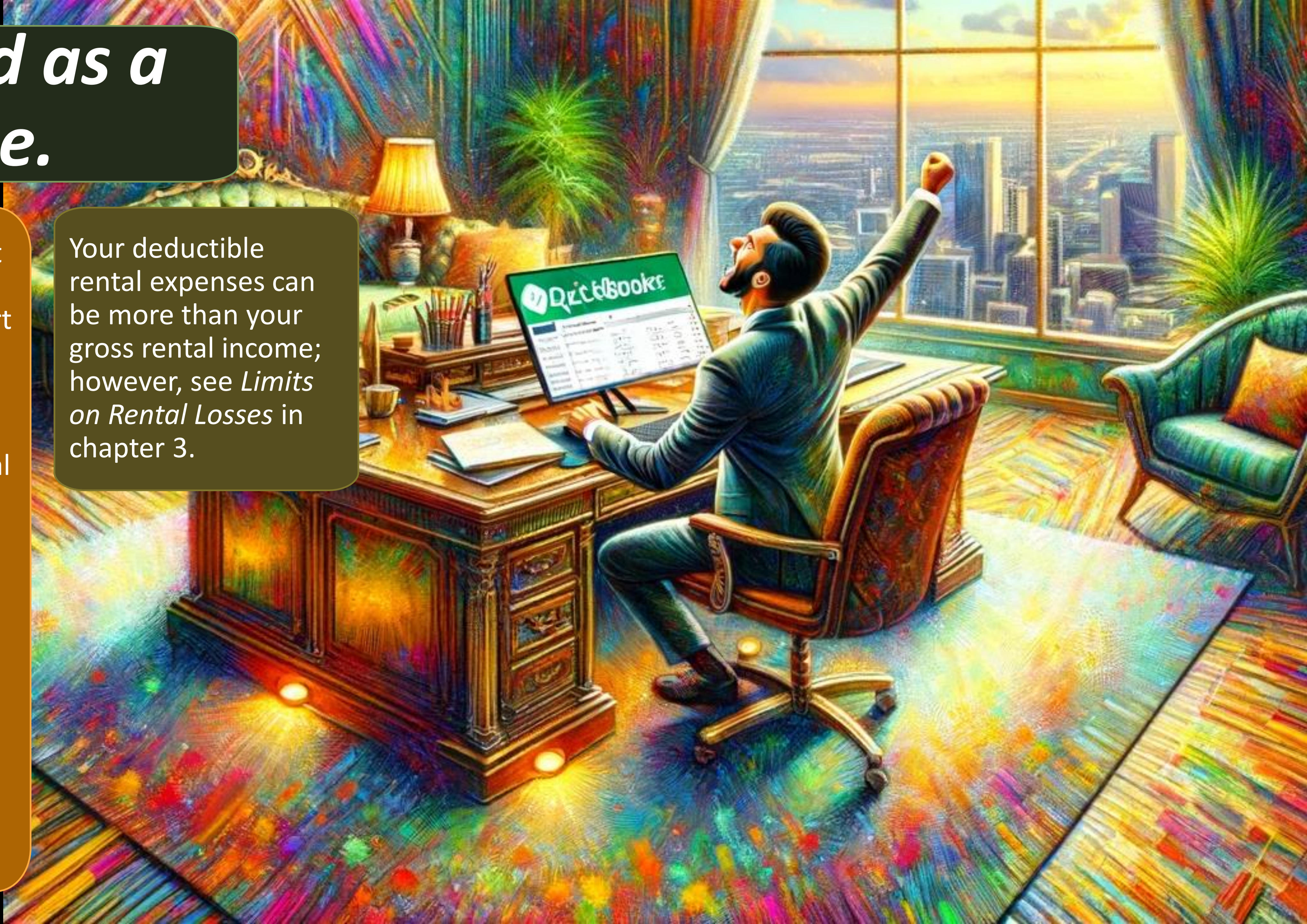
Not used as a home.

If you use a dwelling unit for personal purposes, but not as a home, report all the rental income in your income.

Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*.

The expenses for personal use aren't deductible as rental expenses.

Your deductible rental expenses can be more than your gross rental income; however, see *Limits on Rental Losses* in chapter 3.



Used as a home but rented less than 15 days.

If you use a dwelling unit as a home and you rent it less than 15 days during the year, its primary function isn't considered to be rental and it shouldn't be reported on Sched-ule E (Form 1040).

You aren't required to report the rental income and rental expenses from this activity.

Any expenses related to the home, such as mortgage interest, property taxes, and any qualified casualty loss, will be reported as normally allowed on Schedule A (Form 1040).

See the Instructions for Schedule A for more information on deducting these expenses.

Used as a home and rented 15 days or more.

If you use a dwelling unit as a home and rent it 15 days or more during the year, include all your rental income in your in-come. Because you used the dwelling unit for personal purposes, you must divide your expenses between the rental use and the personal use as described earlier in this chapter under *Dividing Expenses*. The expenses for personal use aren't deductible as rental expenses.

If you had a net profit from renting the dwelling unit for the year (that is, if your rental income is more than the total of your rental expenses, including depreciation), deduct all of your rental expenses. You don't need to use Worksheet 5-1.

However, if you had a net loss from renting the dwelling unit for the year, your deduction for certain rental expenses is limited. To figure your deductible rental expenses and any carryover to next year, use Worksheet 5-1.