



Income – Schedules K-1 and Rental

Schedule K-1 (Form 1065) Department of the Treasury Internal Revenue Service	20 22 Part
	For calendar year 2022, or tax year
beginning / / 2022	ending / / 2 N
Partner's Share of Income, Deductions,	
Credits, etc.	See separate instructions.
Part I Information About the	Dartnershin 4a G
A Schedule K-1 (Form 1041)	2022
B Department of the Treasury Internal Revenue Service	For calendar year 2022, or tax year
beginning / / 202	22 ending / / 2a
Beneficiary's Share of Income, Deductions,	
c CrSchedule K-1	2021
D (Form 1065)	40
Department of the Treasury Internal Revenue Service	For calendar year 2021, or ta
B beginning /	/ 2021 ending / /

About Income – Schedules K-1 and Rental

- Additional resources listed in L< "References" tab
- Review all tips and cautions in the lesson
- Read all examples and sample interviews
- We will review answers to each exercise

Objectives – Income – Schedules K-1 and Rental

- Identify Schedule K-1 income items that are within the scope of the VITA/TCE programs
- Determine how to report Schedule K-1 income items
- Determine which types of rental income must be reported
- Identify how to report rental expenses
- Time Required: 30 minutes

Topics



• Schedule K-1



- Rental Income and Expenses
- Depreciation
- Special Allocations
- Rental Loss

Key Terms

Definitions are always available in the L< online Glossary.

- Actual Expense Method
- ADS
- At-risk Rule
- Basis
- Cash Method of Accounting
- Depreciation
- Investment Income
- Modified Accelerated Cost Recovery System (MACRS)

- Passive Activity
- Rental Expenses
- Rental Income
- Schedule K-1 (Form 1041)
- Schedule K-1 (Form 1065)
- Schedule K-1 (Form 1120S)
- Standard Mileage Method

Schedule K-1

- Reports taxpayer's share of income and other distributions, deductions, and credits from partnerships, S corporations, and some estates and trusts
- Limited Schedule K-1 income topics (and reporting forms) are in scope
 - Interest income (Form 1040, unless Schedule B is required)
 - Dividend income (Form 1040, unless Schedule B is required)
 - Qualified Dividends income (1040)
 - Net short-term capital gains and losses (Schedule D, line 5)
 - Net long-term capital gains and losses (Schedule D, line 12)
 - Tax-exempt interest income (Form 1040)
 - Royalty income (Schedule E) only in scope if the source document is a Schedule K-1 or Form 1099-MISC, Box 2, Royalties, with no associated expenses

Rental Income and Expenses



- Generally, income from renting a room or home to a tenant is reportable on Form 1040, Schedule E
 - Property must have been rented at fair rental value if not, income and expenses are reported differently, and it is out of scope
- Two methods of accounting:
 - Cash basis most common
 - Accrual method out of scope

SCHEDULE SE (Form 1040)

Department of the Treasury Internal Revenue Service

Self-Employment Tax

Go to www.irs.gov/ScheduleSE for instructions and the latest information.

Attach to Form 1040, 1040-SR, or 1040-NR.

OMB No. 1545-0074

2022

Attachment
Sequence No. 17

Name of person with self-employment income (as shown on Form 1040, 1040-SR, or 1040-NR)

Social security number of person with **self-employment** income

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is **church employee income**, see instructions for how to report your income and the definition of church employee income.

Rental Income and Expenses



What are common deductible rental expenses?

- Mortgage interest
 - Split between Schedule A and Schedule E if only part of the home was rented, or if the home was rented for only part of the year
- Property taxes
 - If any part of the property tax is a special assessment for local benefits, it is added to the basis of the property, and is not deductible
- Property insurance
- Auto and travel expenses related to the production of rental income
 - Standard mileage rate
 - Actual expense method out of scope
- Property repairs

Rental Income and Expenses



Repairs vs. Improvements – common source of confusion

- Repairs:
 - Keep the property in good operating condition
 - Costs are current year deductions
- Improvements:
 - Add to the life or material value of the property, prolong its life, or adapts it to new uses
 - Costs must be depreciated over the useful life of the improvement

Depreciation



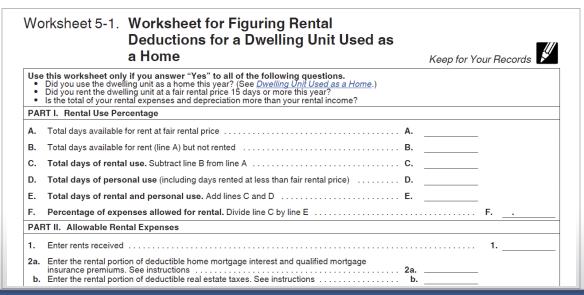
- What are some examples of depreciable property?
 - Buildings, machinery, furniture, vehicles, improvements to rental property
- Land and land improvements are not depreciable
- Three basic factors determine amount of depreciation:
 - Basis of the property
 - Recovery period for the property
 - Depreciation method used

Special Allocations



Rental vs. Personal Use

- Personal use of a dwelling unit can limit deductibility of rental expenses
- Mortgage interest and property taxes are allocated separately on both
 Schedules A and E if there is personal use
- Review the Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home in <u>Pub 527</u>, Chapter 5, Personal Use of Dwelling Unit (Including Vacation Home)



Rental Loss

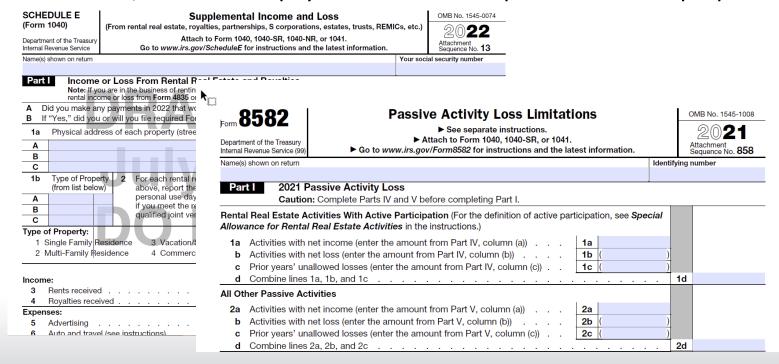


- Passive Income vs. Active Participation Taxpayers who are not active participants may not deduct rental losses that exceed rental income.
- Two restrictions on how much a loss from passive activity can offset other sources of income:
 - At-risk rule taxpayer can claim a loss only up to the amount for which they are personally at-risk in the activity
 - Passive activity rule losses that exceed rental income are not deductible
- For more information, see <u>Publication 925</u>, Passive Activity and At-Risk Rules.

Reporting Rental Loss



- When reporting passive rental loss, Form 8582 is generally not required if the taxpayer has:
 - Only one passive loss generated from a rental activity and
 - An AGI of less than \$100,000
- If in doubt, refer the taxpayer to the IRS or a professional tax preparer.



Summary

- This lesson covered:
 - Identifying Schedule K-1 income items that are within the scope of the VITA/TCE programs.
 - Rental Income and expenses is in scope only for Military families renting their personal residence.
 - Determining how to report Schedule K-1 income items
 - Determining which types of rental income must be reported
 - Identifying how to report rental expenses
- Check your understanding of this lesson by going to Certification Warm Up on your student landing page



Skills Workout



Certification Warm Up



Media: Videos & Audio



TaxWise Tutorial



Job Aids



Practice Lab

Schedule K-1 Items Within Scope:

- Interest income (Schedule B)
- Dividend income (Schedule B)
- Net short-term capital gains and losses (Schedule D)
- Net long-term capital gains and losses (Schedule D)
- Tax-exempt interest income (Form 1040)
- Royalty income (Schedule E)

Out of Scope for this Lesson:

- Schedule K-1 items other than the six income items specifically identified in this lesson as within scope
- Royalty income reported on Form 1099-MISC with associated expenses
- Taxpayers who rent their property at less than fair rental value
- Rental-related interest expenses other than mortgage interest
- The actual expense method (auto and travel expense deductions)
- Casualty loss
- Completing Form 8582 and Completing Form 4562
- "Yes" answer to question A on Schedule E, indicating a Form 1099 filing requirement
- Rental income and expenses for non-Military families renting their personal residence.