



Income – Schedules K-1 and Rental

The image shows three overlapping IRS Schedule K-1 forms. The top form is Schedule K-1 (Form 1065) for 2022, titled "Partner's Share of Income, Deductions, Credits, etc." The middle form is Schedule K-1 (Form 1041) for 2022, titled "Beneficiary's Share of Income, Deductions, Credits, etc." The bottom form is Schedule K-1 (Form 1065) for 2021. Each form includes the IRS logo, the year, and the title. The forms are partially obscured by each other, showing only the top and bottom portions of the overlapping ones.

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 [Pub 527](#), Chapter 5, Personal Use of Dwelling Unit (Including Vacation Home)

Worksheet 5-1. **Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home**  *Keep for Your Records*

Use this worksheet only if you answer "Yes" to all of the following questions.

- Did you use the dwelling unit as a home this year? (See *Dwelling Unit Used as a Home*.)
- Did you rent the dwelling unit at a fair rental price 15 days or more this year?
- Is the total of your rental expenses and depreciation more than your rental income?

PART I. Rental Use Percentage

A. Total days available for rent at fair rental price	A. _____
B. Total days available for rent (line A) but not rented	B. _____
C. Total days of rental use. Subtract line B from line A	C. _____
D. Total days of personal use (including days rented at less than fair rental price)	D. _____
E. Total days of rental and personal use. Add lines C and D	E. _____
F. Percentage of expenses allowed for rental. Divide line C by line E	F. _____

PART II. Allowable Rental Expenses

1. Enter rents received	1. _____
2a. Enter the rental portion of deductible home mortgage interest and qualified mortgage insurance premiums. See instructions	2a. _____
b. Enter the rental portion of deductible real estate taxes. See instructions	b. _____

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 [Publication 925](#), 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.

SCHEDULE E
(Form 1040)

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

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2022
Attachment Sequence No. 13

Department of the Treasury
Internal Revenue Service

Attach to Form 1040, 1040-SR, 1040-NR, or 1041.
Go to www.irs.gov/ScheduleE for instructions and the latest information.

Name(s) shown on return _____ Your social security number _____

Part I **Income or Loss From Rental Real Estate and Residuals**

Note: If you are in the business of renting rental income or loss from Form 4835 or Form 4836, see the instructions.

A Did you make any payments in 2022 that were required to be reported on Form 4835 or Form 4836? **Yes** **No**

1a Physical address of each property (street, city, state, and ZIP code)

A	
B	
C	

1b Type of Property (from list below)

A	
B	
C	

2 For each rental real estate activity listed in 1b above, report the number of personal use days if you meet the requirements for a qualified joint venture.

Type of Property:

1 Single Family Residence	3 Vacation/Second Home
2 Multi-Family Residence	4 Commercial

Income:

3 Rents received

4 Royalties received

Expenses:

5 Advertising

6 Auto and travel (see instructions)

Form 8582 **Passive Activity Loss Limitations**

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Department of the Treasury
Internal Revenue Service (99)

See separate instructions.
Attach to Form 1040, 1040-SR, or 1041.
Go to www.irs.gov/Form8582 for instructions and the latest information.

Name(s) shown on return _____ Identifying number _____

Part I **2021 Passive Activity Loss**

Caution: Complete Parts IV and V before completing Part I.

Rental Real Estate Activities With Active Participation (For the definition of active participation, see *Special Allowance for Rental Real Estate Activities* in the instructions.)

1a Activities with net income (enter the amount from Part IV, column (a))	1a	
b Activities with net loss (enter the amount from Part IV, column (b))	1b	()
c Prior years' unallowed losses (enter the amount from Part IV, column (c))	1c	()
d Combine lines 1a, 1b, and 1c	1d	

All Other Passive Activities

2a Activities with net income (enter the amount from Part V, column (a))	2a	
b Activities with net loss (enter the amount from Part V, column (b))	2b	()
c Prior years' unallowed losses (enter the amount from Part V, column (c))	2c	()
d Combine lines 2a, 2b, and 2c	2d	

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.