

Real Estate Investing: Tax Advantages

A step-by-step guide
to help you understand some of the
benefits





Hello and Welcome!

In today's economic landscape, investors are constantly seeking avenues to not only grow their wealth but also optimize their tax liabilities.

Beyond the potential for passive income and capital appreciation, residential properties offer a plethora of tax advantages.

At the heart of understanding the tax benefits of residential real estate lies the recognition of various deductions available to property owners. From property taxes and mortgage interests to insurance premiums and maintenance costs.

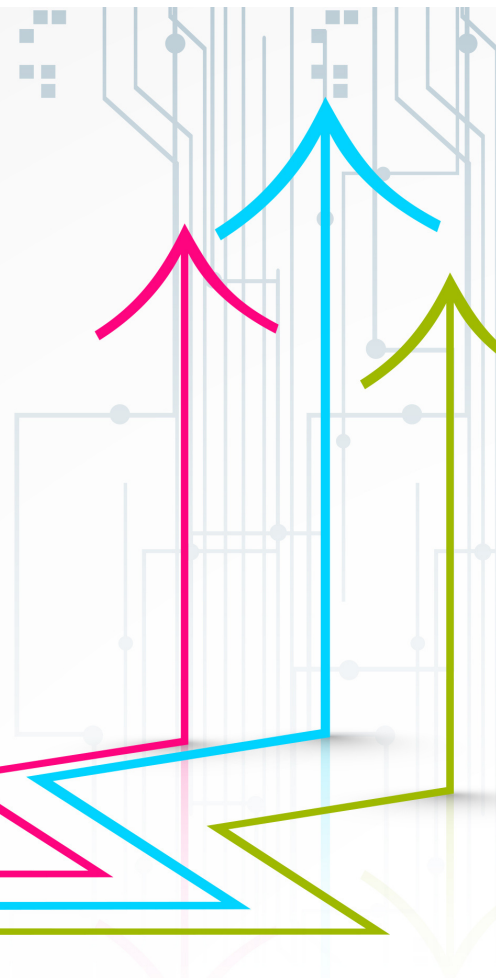
WHAT IS Depreciation

A Key Advantage in Residential Real Estate

Depreciation stands as a cornerstone of tax advantages in residential real estate investing.

Essentially, depreciation allows property owners to deduct the gradual decline in the value of their asset over time reflecting the wear and tear associated with its use.

While the property may appreciate in market value, the IRS acknowledges that buildings and improvements inevitably deteriorate over time, hence allowing depreciation as a legitimate tax deduction.



Advantages of Depreciation

One key advantage of depreciation is its ability to lower the taxable income, thereby reducing the tax burden on property owners. By deducting depreciation expenses from rental income, investors effectively shield a portion of their earnings from taxation, allowing for increased cash flow and improved profitability. This tax benefit is particularly advantageous for property investors, as it enhances the property's overall return on investment and contributes to long term wealth accumulation.

Moreover, depreciation provides investors with a non-cash expense, meaning they can benefit from tax deduction without any immediate out of pocket costs.

Additionally, depreciation can be leveraged as a valuable estate planning tool, enabling investors to pass on assets to heirs with a stepped-up basis. By reducing the property's taxable value through depreciation deductions over time, investors can potentially minimize estate taxes for their beneficiaries, ensuring the preservation of wealth across generations.

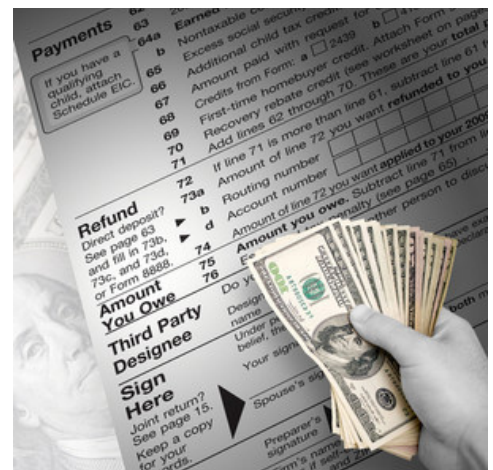
Other Considerations:

✓ Depreciation recapture upon the sale of a property allows investors to recoup some of the tax benefits previously claimed. You must claim the depreciation, even if you don't the IRS will assess the amount you could have claimed.

✓ Even with recapture, depreciation remains a highly advantageous tax strategy for residential real estate investors, offering substantial long-term benefits that contribute to overall financial success and wealth accumulation.

MAXIMIZING RETURNS: Leveraging Mortgage Interest Deduction

1. **Lower Taxable Income:** Mortgage interest deduction effectively lowers the taxable income for property owners, resulting in reduced tax obligations. By deducting the interest paid on their mortgage loans, investors can significantly decrease their tax burden.
2. **Increased Cash Flow:** By reducing the taxable income through mortgage interest deduction, investors can enhance their property's cash flow. The savings from lower tax payments can be reinvested into the property or used for other financial goals.
3. **Encourages Investment:** With this deduction investors are more inclined to purchase properties knowing that they can offset a portion of their mortgage interest payments through tax deductions.



Mortgage interest deduction allows investors to deduct the interest paid on their mortgage loans from their taxable income, thereby reducing their overall tax liability.

Other Deductions to Consider:

1. A pass through deduction is available if you conduct your real estate business through a sole proprietorship, real estate partnership, LLC or S Corp. This pass-through allows you to deduct 20% of qualified business income from your taxes.
2. Capital Gains Taxes come from selling real estate at a profit. There are short term and long term gains. Short Term one year or less receive no tax benefit and the IRS may consider this regular income. This may make you jump in your tax bracket, raising your income taxes.
3. 1031 Exchange: By using a 1031 exchange you can avoid this tax called depreciation recapture. This benefit allow you to defer taxes on real estate if you buy another investment property of equal or greater value than what you sold. There is a relatively small cost and you will need a professional to help with this.

Other Deductions:

Other Deductions to Consider:

CHECKLIST #1

- ☐ Insurance Premiums
- ☐ Home Office Expenses
- ☐ Advertising Costs
- ☐ Legal and Accounting Fees
- ☐ Property Management Fees



CHECKLIST #2

- ☐ Maintenance Costs & Repairs
- ☐ Property Taxes
- ☐ Travel Expenses
- ☐ Office Equipment -Computers
- ☐ Postage

EXAMPLE

Depreciation

Residential Properties are Typically Depreciated Over 27.5 Years

1. Purchase Property Price \$450,000.00

The land that the property sits on is not allowed to be depreciated. A typical deduction for the land value is 15%.
In this example $15\% \text{ of } \$450,000.00 = \$67,500.00$

2. Building Value For Depreciation

$\$450,000.00 - \$67,500.00 = \$382,500.00$

3. Building Value Depreciation

$\$382,500 / 27.5 = \$13,909.09 \text{ per year}$

EXAMPLE

Mortgage Interest

Maximizing Mortgage Interest Deductions

1. Purchase Property Price \$450,000.00

\$450,000.00 purchase with a \$90,000.00 down payment
Results in a mortgage amount of \$390,000 at 5.5% Interest.

2. First Year Interest Paid

First Year Interest Paid is \$19,177.37
Rental Income for the year is $\$2,300.00 \times 12 = \$27,600.00$

3. Building Value Depreciation

$\$27,600.00 - \$19,177.37 = \$8,422.63$ new taxable income total.
This is a very significant saving against your annual tax burden

Thank you!

In conclusion: By strategically leveraging these tax provisions, investors can enhance the profitability of their real estate portfolio, bolster cash flow, and build a solid foundation for future wealth accumulation.

Important: When applying these deductions, you must use a tax professional. The rules are always changing and your tax professional will be up on these changes. And they are well worth the cost to have them do your returns professionally. (Stay Out Of Tax Jail)



Do You Need More Help?

Schedule a Call

Call Paul at 623-206-2458



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