

Tax-Free Income From Renting Your Home

From Canton, Ohio, where the Pro Football Hall of Fame Weekend takes place in August, to Los Angeles, which has Haunted Hayrides to celebrate Halloween throughout October, cities small and large host special events throughout the year. Moreover, oceanfront communities attract millions of tourists in the summer while mountain regions offer winter sports each winter.

What is the common denominator? If you live in an area popular with tourists, for a season or a month or even a day, you can rent your home for a sizable amount. According to some reports, homes in the Augusta, Georgia area rent for as much as \$20,000 for the week of the Masters Golf Tournament in April.

Moreover, income from such rental activity is legitimately tax-free: you don't have to report it on your tax return. You can't deduct any expenses incurred for the rental, but you still can take applicable mortgage interest and property tax deductions for your home with no reduction for the profitable rental period.

Fortune's fortnight

As you might expect, you have to clear some hurdles to qualify for

this tax-free income. Perhaps most important, you must rent the home for no more than 14 days during the year. If you go over by even one day, tax-free taxation will vanish. In that case, you will have to report your rental income, and you may take appropriate deductions, but the process can become very complicated.

In addition to the 14-day limit, the IRS says that you must use the "dwelling unit as a home." This means that you must use the property for personal purposes more than (a) 14 days or (b) 10% of the days it is rented to others at a fair price, whichever is greater.

Example 1: Jan Harrison lives in Charlotte, North Carolina, throughout the year but rents her home for a week when the Bank of America 500 race is in town. She moves in with her sister and then goes home after the weeklong rental ends. Jan lives in her home well over 300 days in the year, so claiming the tax-free rental income won't be a problem.

You also can claim this tax break for a vacation home as long as there are at least 15 days of personal use and you keep rentals under 15 days a year. With either a primary residence

or a second home, keep careful records to show that you observed the 14-day rental limit.

Proceed prudently

Tax-free income is certainly welcome, but it shouldn't be your only concern. Keep in mind that you are letting other people occupy your home, perhaps during a time when parties may occur. Make sure you have a formal rental agreement in place and that you collect the rent upfront, along with a deposit for possible property damage. Check with your homeowners insurance agent to see if you need special coverage, and check with local officials to find out if you need a permit for a short-term rental.

If you decide to use a service to handle the rental and save you some aggravation, ask what fees you'll owe. In addition, ask if the rental income will be reported to the IRS. Such reports may complicate what can be a straightforward tax benefit; our office can explain the possible problems and solutions. ■

TAX CALENDAR

JULY 2014

July 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in June if the monthly rule applies.

July 31

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2014. Deposit any undeposited tax. If your tax liability is less than \$2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until August 11 to file the return.

For federal unemployment tax, deposit the tax owed through June if more than \$500.

If you maintain an employee benefit plan with a calendar year-end, file Form 5500 or 5500-EZ for calendar year 2013.

AUGUST 2014

August 11

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2014. This due date applies only if you deposited the tax for the quarter in full and on time.

August 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in July if the monthly rule applies.

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