

Norwalk Business Service, Inc.

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****Year-End Tax Planning****

Dear Rental Property Client,

Tax preparers have spent the year learning about and asking for clarification from the IRS about last year's new tax law, the Tax Cuts and Jobs Act. Last week, the IRS issued Notice 2019-07 providing guidance on the new Section 199A deduction. This is a deduction of 20 percent of the qualified income against the taxpayer's taxable income. A Rental Owner that makes \$100,000.00 in rental income, would get a \$20,000.00 deduction against their taxable income.

Congress was not clear in prior legislation about what kinds of income qualify for this deduction and so the IRS has had to issue guidance. Their most recent guidance is about rental income and affects many of our clients. The IRS has stated that not all rental properties will qualify for this deduction. Rental Activities that do qualify are activities where the taxpayer has active participation in the rental activity.

Qualification for the IRS Safe Harbor Election:

1. Taxpayer must maintain separate books and records.
2. 250 or more hours of rental services must be performed per year. Activities can be grouped together.
3. Contemporaneous records must be kept of rental activity. This includes time reports, logs, or similar documents regarding hours of services performed, description of all services performed, dates on which such services were performed, and who performed the services.
4. Your tax return must include a signed statement under penalty of perjury that the taxpayer qualifies for the safe harbor election.
5. Triple net leases do not qualify for 20 percent deduction.
6. Landlords must file 1099s if their rental activity is a trade or business.
7. For those real estate agents and brokers that are full time, your rental activity qualifies for the deduction without the Safe Harbor Election.

Please contact your tax preparer if you have any questions about this newsletter and the 20 percent deduction.

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