You might save tax if your vacation home qualifies as a rental property

Do you own a vacation home? If you both rent it out and use it personally, you might save tax by taking steps to ensure it qualifies as a rental property this year. Vacation home expenses that qualify as rental property expenses aren't subject to the Tax Cuts and Jobs Act's (TCJA's) new limit on the itemized deduction for state and local taxes (SALT) or the lower debt limit for the itemized mortgage interest deduction.

Rental or personal property?

If you rent out your vacation home for *15 days or more,* what expenses you can deduct depends on how the home is classified for tax purposes, based on the amount of personal vs. rental use:

Rental property. If you (or your immediate family) use the home for *14 days or less, or under 10%* of the days you rent out the property, whichever is greater, the IRS will classify the home as a rental property. You can deduct rental expenses, including losses, subject to the real estate activity rules.

Your deduction for property tax attributable to the rental use of the home *isn't* subject to the TCJA's new SALT deduction limit. And your deduction for mortgage interest on the home isn't subject to the debt limit that applies to the itemized deduction for mortgage interest. You can't deduct any interest that's attributable to your personal use of the home, but you can take the personal portion of property tax as an itemized deduction (subject to the new SALT limit).

Nonrental property. If you (or your immediate family) use the home for *more than 14 days or 10%* of the days you rent out the property, whichever is greater, the IRS will classify the home as a personal residence. You can deduct rental expenses only to the extent of your rental income. Any excess can be carried forward to offset rental income in future years.

If you itemize deductions, you also can deduct the personal portion of both property tax and mortgage interest, subject to the TCJA's new limits on those deductions. The SALT deduction limit is $10,000 for the combined total of state and local property taxes and either income taxes or sales taxes ($5,000 for married taxpayers filing separately). For mortgage interest debt incurred after December 15, 2017, the debt limit (with some limited exceptions) has been reduced to $750,000.

Be aware that many taxpayers who have itemized in the past will no longer benefit from itemizing because of the TCJA's near doubling of the standard deduction. Itemizing saves tax only if total itemized deductions exceed the standard deduction for the taxpayer's filing status.

Year-to-date review

Keep in mind that, if you rent out your vacation home for *less than 15 days,* you don't have to report the income. But expenses associated with the rental (such as advertising and cleaning) won't be deductible.

Now is a good time to review your vacation home use year-to-date to project how it will be classified for tax purposes. By increasing the number of days you rent it out and/or reducing the number of days you use it personally between now and year end, you might be able to ensure it's classified as a rental property and save some tax. But there also could be circumstances where personal property treatment would be beneficial. Please contact us to discuss your particular situation.