



Rental Income and Expenses

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Rental Income

Rental income includes any payment received for the use or occupancy of property. In addition to normal rent payments, the following items are reported as rental income.

Types of Rental Income	Description
Advance rent	Any amount received prior to the period that the payment covers.
Payment for cancelling a lease	Any amount paid by a tenant to cancel a lease.
Expenses paid by tenant*	Any amount paid by a tenant on behalf of the property owner to cover maintenance or improvement expenses.
Property or services**	The fair market value (FMV) of property or services received in lieu of rent.

All of these types of rent are reported as income in the year received.

* **Example:** Your tenant pays the cost to repair the furnace and subsequently deducts the amount from rent. You treat the cost of the repair as rental income and deduct the same amount as a rental expense for repairs and maintenance.

** **Example:** Your tenant paints the property instead of paying two months rent. You include the amount of rent your tenant would have paid in rental income and deduct the same amount as a rental expense for painting. If the services are provided at an agreed-upon price, that price is considered FMV unless there is evidence to the contrary.

Security Deposits

A security deposit is not included in rental income when received if you plan to return it to the tenant at the end of the lease. If any amount is kept during the year because the tenant did not live up to the terms of the lease, include that amount as rental income. If an amount called a security deposit is to be used as a final payment of rent, it is advance rent and is included as income in the year received.

Note: Individual states have laws requiring payment of interest by property owners who hold security deposits. Check state laws for more information.

Rental Expenses

A deductible expense is any expense that is both:

- **Ordinary.** Common and accepted in your line of work, and
- **Necessary.** Helpful and appropriate for work.

An expense need not be required in order to be considered necessary. Facts and circumstances must be considered in each case to determine whether an expense is ordinary and necessary.

Depreciation

Depreciation deductions begin when property is ready and available for rent.

Vacant Property

Expenses are deductible beginning at the time the property is available for rent regardless of when rental income is actually received.

Insurance Premiums Paid in Advance

Insurance premiums paid more than 12 months in advance are deducted in the year to which the policy applies. Premiums paid for 12 months or less are deductible in the year paid.

Local Transportation Expenses

Local transportation expenses incurred to collect rental income or to manage, conserve, or maintain rental property are deductible. You may deduct either actual expenses or the standard mileage rate for an auto (65.5¢ per mile for 2023).