

RENTAL ACTIVITY AND THE QBI DEDUCTION

The Qualified Business Income Deduction (QBI) was created by the Tax Cuts & Jobs Act. The QBI deduction allows qualified owners of trades or businesses to deduct up to 20% of the qualifying income for tax purposes.

Rental income from a residential property can be eligible for the Qualified Business Income (QBI) deduction, but certain conditions must be met. However, it is important to note that rental activities that are not generating a net profit can be counterproductive to maximizing a QBI deduction. As QBI eligible trades and businesses are netted for purposes of calculating the QBI deduction, losses from QBI eligible activities are subtracted from profits generated from others when calculating the QBI deduction.

If you have a profit generating rental activity, you may want to take necessary steps to qualify for QBI treatment of the rental activity. The IRS established a safe harbor to determine whether your rental income rises to the level of a trade or business for purposes of the QBI deduction. In order to qualify all of the following must be true:

1. Maintain separate books and records to reflect income and expenses for each rental real estate enterprise.
2. Hours of service performed requirement:
 - a. If in existence less than four years, 250 or more hours of rental services performed per year, or
 - b. If in existence for four or more years, 250 or more hours of rental services have been performed in at least three of the past five years.
3. The taxpayer maintains contemporaneous records, including time reports, logs, or similar documents, regarding the following:
 - a. Hours of all services performed,
 - b. Description of all services performed,
 - c. Dates on which such services are performed,
 - d. Who performed the services
4. The taxpayer attaches a statement to the return filed for the tax year

*Note: Rental activities that are not generating a net profit can be counterproductive to maximizing a QBI deduction. As QBI eligible trades and businesses are netted for purposes of calculating the QBI deduction