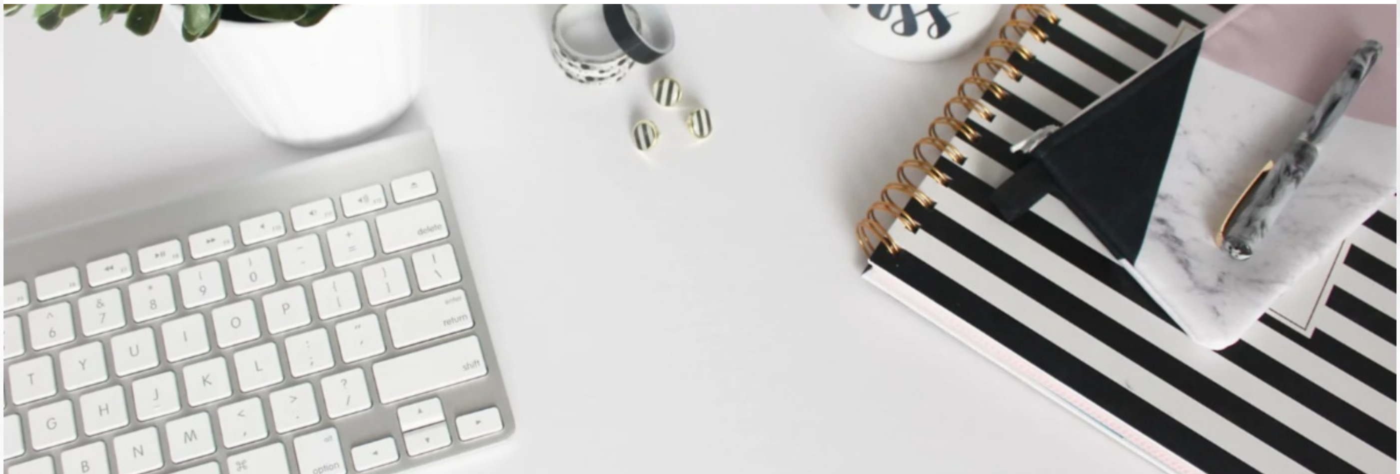
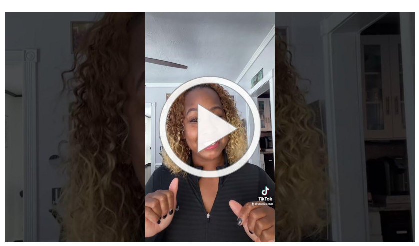
TAX TIP #2

My
Services



TAXABLE VS. NON TAXABLE INCOME
RENTAL INCOME
CANCELED DEBT
EARLY DISTRIBUTION
CAPITAL GAIN/LOSS
LOSS/SHORT SALE OF HOME



For some of you, 2021 may have felt like you were on a financial roller coaster, as the stock and real estate markets definitely saw some ups & downs and may have experienced some gains, and unfortunately losses.
Welp! Read on to learn more if you took funds from your 401k, made a profit (or loss) on stock or property, or even had to file bankruptcy and/or short-sold or foreclosed on your property in 2022.

TAXABLE VS. NON-TAXABLE INCOME

Taxable income is income that is taxed or income in which personal exemptions and deductions are taken out whether you earn it or are paid as a return on your investment. Nontaxable income is income that is not taxed under certain IRS conditions. List of taxable income can be found at **https://www.efile.com/taxable-income/**

NOTE: You are also required to pay tax on income not yet in your possession. Such as, you receive a holiday bonus check but don't cash it until after the new year, it is still considered income for this tax year. **BE SURE** you have ALL your tax documents, you do not want to be amending your tax return later, as it may affect your tax refund/liability.

Rental Property

Income-Expenses

RENTAL INCOME & EXPENSES

Rental real estate provides more tax benefits than almost any other investment. Many times, these benefits can make a NICE difference between earning a profit or losing money on a rental property.

If you rent real estates such as buildings, rooms, or apartments, you normally report your rental income and expenses on Form 1040 or 1040-SR, Schedule E, Part I. Rental income is taxed as ordinary income – using progressive tax brackets, which range from 10 to 37%, depending on your filing status and taxable income.

Most rental real estate activities are passive activities. For this purpose, a rental activity is an activity from which you receive income mainly for the use of tangible property, rather than for services. Deductions or losses from passive activities are limited. You generally cannot offset income, other than passive income, with losses from passive activities. Also, you cannot offset taxes on income, other than passive income, with credits resulting from passive activities. Any excess loss or credit can be carried forward to the next tax year.

If Your Rental Income Was Made via Airbnb, VRBO, or HomeAway it's possible that not all of your Airbnb income is taxable. If you offer your property for short-term rental for only 14 days or less during the year, and you use the property yourself 14 days or more — or at least 10% of the total days you rent it out — then you do not need to pay income tax on that rental income.

Experienced rental owners know that to succeed, you need to treat your short-term rental like a business, which means you also get businesslike deductions when income tax time comes.

The 14-day rule

To maximize your federal income tax deductions, your home must be classified as a full-time rental business. That means it's used by you for your personal stays for less than 14 days or fewer, or 10% or less of total annual rental days, whichever is greater. Keep in mind that days primarily spent repairing or maintaining the property don't count toward personal use days. A benefit of using your property as a full-time rental business is that you may be able to deduct up to $25,000 in losses each year, depending on your income.

Vacation rental host sites like Airbnb, HomeAway, and Vrbo will send a Form 1099-K to hosts who have more than 200 reservations and who earn over $20,000. They will also send you a form if you had taxes withheld from your payouts so you can claim your withholdings on your return.

If you don't receive a form, it doesn't mean you don't owe taxes. Your host site is reporting your income to their IRS on their end, so it's important to report the same income when you file your tax return.

CANCELED (SETTLED) DEBT

Settling a debt with a creditor by paying less than you owe on a credit card, can cause additional income needing to be reported on your taxes. If you have cancellation of debt income because your debt is canceled, forgiven, or discharged for less than the amount you must pay, the amount of the canceled debt is taxable and you must report the canceled debt on your tax return for the year the cancellation occurs. You'll receive a Form 1099-C, "Cancellation of Debt," from the lender that forgave the debt.

Two circumstances under which taxes don't have to be paid on the amount that's wiped out in a credit card debt settlement.

- Under Internal Revenue Code Section 108(a), you do not need to include the forgiven amount of the credit card debt in your gross income if the discharge occurs in a bankruptcy case or the discharge occurs when you are insolvent.

- If the settlement occurred while you were insolvent, you won't need to pay taxes on the amount forgiven.

EARLY DISTRIBUTION &

401(k) EARLY WITHDRAWAL PENALTIES

Legislation enacted in March 2020 allowed individuals to withdraw, for Covid-related reasons, up to $100,000 from qualified retirement accounts without facing a 10% early withdrawal penalty if they were underage 59½.

Taxpayers who took the hardship distribution had the choice to elect to pay federal income taxes on the distribution over a three-year period or repay the distribution amount over a three-year period and avoid tax consequences entirely. The three-year repayment period starts on the day of the distribution.

Although the initial provision for penalty-free 401k withdrawals expired at the end of 2020, the Consolidated Appropriations Act, 2021 provided a similar withdrawal exemption, allowing eligible individuals to take a qualified disaster distribution of up to $100,000 without being subject to the 10% penalty that would normally apply. This extended the timeline for penalty-free distributions through June 25, 2021.

Capital Gains & Losses

- Capital gains are the profits from the sale of an asset — shares of stock, a piece of land, a business — and generally are considered taxable income.
- Can use investment capital losses to offset gains
- Short-term capital gains tax is a tax on profits from the sale of an asset held for one year or less.
- Long-term capital gains tax is a tax on profits from the sale of an asset held for more than a year.

Lose Home to Foreclosure or Short Sale

- If you end up with a loss on the foreclosure, you cannot deduct it for tax purposes if the property was your personal residence or a second home
- Could be considered as a cancellation of debt, however, you only have an obligation to report it as ordinary income if you were personally liable for the entire mortgage
- If your forgiven debt is subject to taxation, you will usually receive a form 1099-C, Cancellation of Debt, from the lender, showing the amount of canceled debt.
- **GOOD NEWS**: Due to recent tax law changes that can offer some relief through the Mortgage Debt

Relief Act

- Applied only to your principal residence, the Mortgage Debt Relief Act excluded as income any debt discharge up to $2 million.

If you have questions, don't hesitate to call or email me.

In the meantime, have a blessed day!!

Xo,

Syreeta~

Syreeta Inc
Chicago, IL 60649
(708) 415.2724

Contact Me

Share This Email Share This Email Share This Email