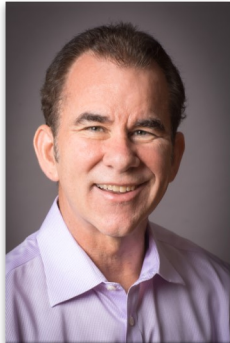


DOES MY RENTAL PROPERTY QUALIFY FOR THE NEW 20% QUALIFIED BUSINESS DEDUCTION?

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*"To satisfy the safe harbor,
250 or more hours must
be spent and documented
related to the rental for
the year."*

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



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The Tax Cuts and Jobs Act, which was signed into law on December 22, 2017, added a new 20% of business income deduction (also known as "the Section 199A deduction") for certain businesses. The determination of who qualifies for the deduction is rather complicated. Furthermore, it has been unclear if rental property owners would qualify. Last month, the Treasury Dept released a proposed revenue procedure in [Notice 2019-7](#) to provide a safe harbor for determining if a rental activity is a trade or business for the purpose of the Section 199A deduction. The news is not good.



Safe Harbor: To use the safe harbor, the rental property owner is required to do each of the following:

1. Maintain separate books and records for each rental activity (or the combined enterprise if multiple properties are aggregated together).
2. Demonstrate that 250 hours or more of "rental services" per year for the activity (or combined enterprise) were performed by the owners, employees or independent contractors with respect to the property or enterprise.
3. Maintain contemporaneous records (meaning "records created at the time of the activity"), including time reports or similar documents regarding 1) hours of all services performed, 2) description of all services performed, 3) dates of which services were performed and 4) who performed the services. For these purposes, rental services include advertising to rent, negotiating and executing leases, verifying tenant applications, collection of rent, daily operation and maintenance, management of the real estate, purchase of materials, and supervision of employees and independent contractors.



Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
 - Tax Return Preparation
 - Income Tax Projections
 - Tax Minimization Ideas
 - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
 - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
 - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

Statement Required: To claim the Section 199A deduction, a property owner must include a statement attached to his/her tax return indicating that the requirements in this revenue procedure have been satisfied. The statement, which must be signed by the taxpayer, states that "Under penalties of perjury, I declare that I have examined the statement, and, to the best of my knowledge and belief, the statement contains all the relevant facts relating to the revenue procedure, and such facts are true, correct, and complete."

In Summary: While the release of this proposed revenue procedure is timely given that tax season is about to start, we are disappointed with the strict requirements the Treasury has laid out. We expect that most rental property owners will not qualify, particularly given the requirement of a minimum of 250 hours spent during the year related to the rental property.