Make sure renting your home beats sale

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With today's real estate market in a less than an ideal state, many homeowners are considering the option of renting their homes instead of selling for less than they had hoped. There are many financial and tax matters to consider when making this decision.

First, you should determine whether you can obtain enough rental income to cover the monthly cash flow of keeping the home. Will the amount of rent you can charge cover not only the mortgage and real estate taxes but also any maintenance, repairs and other costs that might arise? There are also commissions to consider if you are planning to use a broker to secure a tenant.

For example, if you are charging $1,000 a month for rent, and you are only able to rent the home eight out of the 12 months, then you do not have a $4,000 loss. This is the mistake tax professionals often hear. The rental owner will ask if they can take the loss they perceive they incurred from the home going unrented on their tax return. In this situation there is $8,000 of gross rental income for the year and not a $4,000 rental income loss.

There are numerous deductions that you can take to offset any rental income you receive.

Mortgage interest, real estate taxes, repair and maintenance costs incurred, assessment dues, insurance and professional fees are just a few examples. You may be limited to deducting costs only to the extent that you have received rental income.

This means you may be able to get your rental income to zero but not actually take any additional losses on your tax return. The IRS limits the amount of rental real estate losses that can be taken by a taxpayer based on their income level, participation and many other complex tax laws.

Before you make the decision to rent out a home versus selling it for less than you wanted, all of these factors should be considered. Your financial adviser or tax professional can assist you in evaluating which choice is best for your personal situation.

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