

## **Do you qualify for the Go Zone Bonus Depreciation?**

Although many accountants are very good at what they do, we have found that a lot of CPA's are not entirely familiar with the facts about the Go Zone. We have researched the Go Zone for over 2 years and here are facts given to us by attorney's and Mississippi accountants:

- You or your spouse is a Real Estate Professional

OR

- You, or your spouse actively participate in the business of renting the property.

Another way to possibly benefit is to take it one step further where the investor and/or their spouse could become a real estate professional by forming an LLC management company.

Here are other possibilities to help you and/or your tax advisor to determine qualifications for the Go Zone. We have described each one for you.

### **Scenario #1**

You or your spouse are already a real estate professional: The IRS recognizes most rental activities as passive, and passive losses can be offset only by passive income for most taxpayers. If an investor is a qualified real estate professional, this activity is considered nonpassive. This will allow you to offset other nonpassive income including wages, interest, dividends, capital gains, business income, etc.

For example, if you are a licensed realtor and qualify as a real estate professional, your income tax liability (Active Income) can be offset using Go Zone Bonus Depreciation.

Per the IRS.gov website and Publication925, the following is the definition of a real estate professional.

Qualifications: You qualified as a real estate professional for the year if you met both of the following requirements.

- More than half of the personal services you performed in all trades or businesses during the tax year were performed in real property trades or businesses in which you materially participated.
- You performed more than 750 hours of services during the tax year in real property trades or businesses in which you materially participated.

Do not count personal services you performed as an employee in real property trades or businesses unless you were a 5% owner of your employer. You were 5% owner if you owned (or are considered to have owned) more than 5% of your employer's outstanding stock, outstanding voting stock, or capital or profits interest.

If you file a joint return, don not count your spouse's personal services to determine whether you met the preceding requirements. However, you can count your spouse's participation in an activity in determining if you materially participated.

Real property trades or businesses. A real property trade or business is a trade or business that does any of the following with real property: 1) Develops or redevelops it. 2) Constructs or reconstructs it. 3) Acquires it. 4) Converts it. 5) Rents/Leases it 6) Operates or manages it. 7) Brokers it

## **Scenario #2**

<\$150,000 Adjusted Gross Income (AGI)

AGI is as an individual if single and joint between you and spouse if married. Itemized deductions are in place. There is a special allowance that allows you to deduct up to \$25,000 in rental loss from your regular income. <http://www.irs.gov/publications/p925/ar02.html>

For taxpayers with an AGI between \$100,000 and \$150,000, there is a phase out rule that can be pursued. For better understanding please have CPA consult with IRS.

## **Scenario #3**

High net worth individuals. Consult with your CPA about your income from activities other than your regular job such as sale of stocks/bonds. These may qualify as PASSIVE Income.

## **Scenario #4**

### **Any Income, One Person Working Less Than Full Time:**

This situation is very common, however many tax advisors overlook this approach which can ultimately benefit the investor.

Consider the case of one spouse working with high income and another that does not work. It is quite conceivable that with the purchase of one or more Go Zone properties, the non-working spouse could be set up to run a management LLC for purposes of managing those properties.

By accounting for all time spent while researching properties on the net, dealing with advisors, making decisions on renters, logging incoming income, etc., it becomes quite conceivable for that person to now qualify for a real estate professional.

Benefit: If the non-working spouse meets the real estate professional requirements, then all bonus depreciation losses could be used to reduce the ordinary/non-passive income of the working spouse. That could be a massive benefit.

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You performed more than 750 hours of services during the tax year in real property trades or businesses in which you materially participated.

\*\*You do not need to have a real estate license to qualify for a real estate professional.