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Enjoy Tax Benefits if You Own a Vacation Home

Are you planning to use your vacation home soon? If you aren't going to use it, have you considered renting it? Are you thinking of buying a vacation home? A vacation home, with proper tax planning, can help create tax benefits.

Some types of qualifying vacation or "second homes" which might have escaped your notice are boats, motor homes, timeshares and trailers. Three simple tests must be met to have a second home: each must have sleeping, cooling, and toilet facilities. If your camper has these facilities, you have a second home for tax purposes.

Know the tax rules:

Owners of a vacation home face a set of tricky tax rules. How these rules apply to you depends on your personal and rental use of the home during the year. Here are the general rules:

100% Personal Use If you never rent out your vacation home, you can generally deduct mortgage interest and property taxes. If you rent it out for 14 days or less, the rental use is disregarded. The rental income is tax-free and any expenses related to the rental period are nondeductible.

100% Rental Use If the home is rented without personal use, it is treated as a rental property. (Personal use means by your family or anyone who doesn't pay full market rent.) With rental property, you can deduct interest, taxes, operating expenses (utilities, maintenance, etc.) and depreciation. However, your current loss deduction may be limited by the passive loss rules.

Mixed Personal and Rental Use If there are more than 14 rental days and personal use doesn't exceed the greater of (1) 14 days, or (2) 10% rental days, you have a rental property.

This can be bad news. Interest and taxes must be allocated between the rental and personal use. If there is a rental loss, it may not be currently deductible because of the passive loss rules, and the interest allocable to the personal use part of the year is not deductible.

If personal use exceeds the greater of 14 days or 10% rental days, special vacation home rules apply. You can generally deduct interest and taxes. The rental income is reduced by allocable interest and taxes. Remaining rental income can be offset by not exceeded operating expenses and depreciation. Disallowed rental expenses are carried forward to future years.

Optimize Your Tax Benefits Although they are complicated, the vacation home rules present a place where you can easily make adjustments to optimize your tax benefits. Sometimes it is better to use the home more often, sometimes less often.

Unfortunately, there are a few rules of thumb in this complex area. You need to review the rules as they apply to your specific situation. If you have questions or would like details about taxes and your vacation home, contact our office, we are always here to help.