

The Backus Bulletin

"Your Management, Your Way"

March 2018

How does the new tax law affect owners of income property?

We have received many calls from our owners with questions regarding the new income tax law that went into effect January 1, 2018. Some of the details are not yet clear, and I am certainly not an accountant or lawyer, but am happy to pass along what information I have gathered.

Interest on home equity loans:

It does not matter if the loan is on an owner-occupied property or investment property; the interest is deductible if the funds were used to remodel or repair or improve that property or another property. It could also be used for business purposes and deducted as a business expense. Bottom line: not deductible if used to pay off bills or for fun!

Limit on tax deduction for mortgage interest to \$750,000.

Loan: This is for owner occupied or vacation home **and includes the total of the acquisition debt plus the home equity loan**; each investment property would have its own limit.

"2 out of 5" rule:

As most of you know, if you have lived in a property two out of the last five years, it can be treated as an owner occupied home and allows gains of \$500,000 for a couple or \$250,000 for a single to

be not taxable on a sale. This almost got changed to "5 out of 8" but got saved at the last minute. This means if you move out of your home for three years and then sell it, you still get the tax advantage. On the reverse, you can move into a house for two years that you currently rent and have the same tax benefit.

Remember that you can use this exclusion only once every two years.

Maximum deduction of \$10,000:

this is where those of us that live in California will really get stomped. Previously, the property taxes we paid and our state income taxes were deductible as expenses when it came to our federal taxes. That is still the case, but only up to a maximum amount of \$10,000, which is not much.

The way I understand it, it does not affect the property taxes that are paid on rental (investment) properties but is a summation of all property taxes on owner occupied or vacation homes.

Again, **don't rely on this as tax advice** so you will want to contact your CPA with these issues but at least it gives you a starting point.

Addendum: This is not directly related to property management but they gave me some more space so if you have time---I am a long time reader of certain genre of science fiction.

Robert Heinlein is a favorite author and his books, many over 50 years old, still have important thoughts. In "Starship Troopers" only citizens of the planet that have served (voluntarily) in the armed forces are allowed to vote. The rationalization is that generally everyone votes for what is best for themselves rather than what is best for the population as a whole. By serving two years in a very courageous and dangerous job for the sole purpose of protecting the world, they are proving that they understand the responsibility that

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Sundays & Holidays - closed

Announcements & Services

WHAT CAN WE DO TO MAKE OWNING A RENTAL PROPERTY EASIER FOR YOU?

We won't know unless you tell us! Don't forget we have an "Eviction Protection" plan for \$20.00 per month that covers the \$1,000-\$1500 attorney fees if you have to evict a tenant. We also have "Rent Protection" at 2% additional management fee that means we will pay the rent if the tenant does not pay on time or not at all. Call or email our office: info@backuspm.com or 831-455-2052.

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If you are thinking of buying or selling, we can assist you. We specialize in residential and multi-residential units and are experienced in conventional sales, purchases as well as short sales. Just call and ask for Bill and we will help you with your Real Estate needs. There is no obligation. Check out your property value today!

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goes with authority. Voting carries the ultimate authority to change the world, and therefore has the ultimate responsibility to do what is right. What do you think?

Lastly, we are coming across that owners are changing their insurance providers and are not adding Backus Properties as additionally insured. This makes our job easier when tracking down current insurance for your properties. If you could please notify our office when changing insurance so we may update our system it would be greatly appreciated.