Schedule E Engagement Letter

Thank you for using Tucson Tax Team for your tax preparation needs. Clear communication is key to a successful business relationship. The purpose of this letter is to make sure we both have the same understanding of the services we are providing.

tucson tax team

Taxes solved.

Our Responsibilities: Tucson Tax Team will prepare your rental income tax return. We do not prepare and are not responsible for preparation of other business taxes such as state use tax, payroll tax, etc.

Your Responsibilities: The IRS requires you to keep records for all deductions for a minimum of 4 years; we recommend 7 years. Receipts for operating expenses should be kept a minimum of 4 years. Receipts for depreciable assets or improvements should be kept for 3 years after the asset has been disposed of or fully depreciated. You may be asked to prove that your expenses were reasonable and necessary; excessive or inappropriate expenses may be disallowed.

Rental Information: The IRS requires you to report all income received in renting your property. This includes advance rent, payment for cancellation of lease and cash rents in addition to "non-income" sources such as bartering and cancelled debt. Note that unreported income is subject to accuracy-related penalties. Security deposits are not included in income if they will be returned to the tenant. If the tenant moves out any amount of security deposit kept for damages/rent is included in income that year.

The IRS may ask you to prove that your expenses were ordinary and necessary; excessive or inappropriate expenses may be disallowed. You are permitted to expense any item under $2,500 each. Items over $2,500 each must be depreciated. The amount of loss you can deduct against ordinary income may be limited; let us explain your allowable rental losses based on your circumstances.

Mortgage interest paid on debt used to purchase or improve the property may be deducted; interest paid on debt used for other purposed may not be deducted.

You may take a deduction for mileage to and from your rental property for the purposes of collecting rent, making repairs, or inspecting the property. The IRS requires that you keep a log of your mileage (stating the date, destination, purpose of the trip and miles driven) to qualify for the deduction.

The purchase price of the rental is not deductible in the year of purchase; instead, it is depreciated over a period of time, usually 27.5 years for residential rentals. The depreciation that you deduct each year reduces your cost basis; this means that when you sell the property, your taxable income increases. Taking depreciation is not, however, optional.

When you sell your rental property, you may have a gain or a loss on your personal tax return. Please contact us before you sell your rental property so that we can estimate the tax impact of the sale. If you convert your residence to a rental, it is considered a principal residence until you have not lived in it 3 of the last 5 years. After those three years, it is no longer eligible for the principal residence exclusion. There are complex tax rules to determine gain or loss on the sale of property converted from personal residence to rental or the reverse.

Signing below acknowledges receipt of this information:

Signature Date

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