

# 2024 · WHAT ISSUES SHOULD I CONSIDER WHEN OWNING A RENTAL PROPERTY?



| LANDLORD RESPONSIBILITY ISSUES  | YES                      | NO                       |
|---|--------------------------|--------------------------|
| <p><b>Do you need to plan for any tenant-related issues?</b> If so, consider your own personal limitations regarding tenant management (e.g., stress, confrontations, evictions, late payments, screening and onboarding, etc.) and determine whether you need third-party management.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to review any personal time management issues related to owning a rental property?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Understand the degree of time management that may be required when owning a rental property, and how that might differ between short-term and long-term rental properties.</li> <li>Be cognizant of how other priorities for your time may affect your ability to manage your rental property, and anticipate any potential challenges that may arise as a result (e.g., frustrated tenants, slow responses to tenant requests, delayed repairs, poor reviews, etc.).</li> <li>Consider your own limitations around assessing damages and performing repairs, and determine whether you will need to hire outside help.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to check whether your property is compliant with current laws and regulations?</b> If so, consider reviewing your local/state zoning ordinances, building codes, record-keeping requirements, and any other regulations (such as rental assistance programs) that may apply.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |

| RISK MANAGEMENT & LIABILITY ISSUES  | YES                      | NO                       |
|---|--------------------------|--------------------------|
| <p><b>Do you need to review your homeowners and/or landlord insurance for your rental property?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Be aware of the differences in coverage between homeowners insurance and landlord insurance, and how they apply to your situation. You may need to carry both types if you both personally use and rent out your property.</li> <li>Check that your homeowners insurance policy is up-to-date and covers 100% of the replacement cost of the property.</li> <li>Check that your landlord insurance policy has adequate coverage for both property and liability.<br/>(continue on next column)</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |

| RISK MANAGEMENT & LIABILITY ISSUES (CONTINUED)   | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Do you need to review additional ways to increase your liability protection?</b> If so, consider maintaining adequate liability coverage through a personal liability umbrella policy. Furthermore, consider requiring tenants to carry and maintain renter's insurance as part of the lease agreement. Depending on your situation, consider purchasing supplemental coverage for any additional needs (e.g., vandalism, burglary, under-construction protection, etc.).</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to review the pros and cons of putting your rental property in an LLC?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Putting your rental property(s) in an LLC (or multiple LLCs, for separating rental properties from each other) may separate it from your personal assets in the event of a lawsuit, but it does come with further responsibilities (e.g., annual fees, additional tax filing requirements, etc.).</li> <li>Make sure you notify your mortgage lender (if applicable) of your plans to put the property in an LLC. Many lenders charge a higher interest rate for investment properties and may require amendments to your current mortgage contract. In some situations, you may not be able to put your property in an LLC.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |

| INVESTMENT ISSUES  | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Do you need to review any cash flow issues regarding your rental property?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Determine whether your rental income alone is adequate for covering all related rental property expenses, not including depreciation.</li> <li>Consider keeping a separate emergency fund to cover any unexpected expenses or disruptions to rental income (e.g., repairs, tenant vacancies, pandemics, etc.).</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to review how your rental property sits within your overall investment allocation?</b> If so, consider what percentage of your net worth is composed of your rental property(s). Be mindful of how this affects your overall diversification relative to your risk tolerance and investment goals.<br/>(continue on next page)</p>   | <input type="checkbox"/> | <input type="checkbox"/> |

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| INVESTMENT ISSUES (CONTINUED)  | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Do you need to review your rental property's return on investment (ROI)?</b> If so, consider adopting a thorough approach to how you calculate your ROI. Be sure to factor in all expenses (e.g., mortgage interest, insurance, repairs, fees, etc.) and potential vacancies when evaluating its annual performance.</p> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to review the amount you are charging for your rental property?</b> If so, consider your location's proximity to other local attractions (e.g., schools, entertainment, restaurants, etc.) and be mindful of the current pricing of other similar rental properties in your area.</p>                        | <input type="checkbox"/> | <input type="checkbox"/> |

| TAX & SALE ISSUES  | YES                      | NO                       |
|--|--------------------------|--------------------------|
| <p><b>Do you need to review any tax issues related to your rental income and expenses?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Be cognizant of the different classifications your property may fall under (e.g., personal use, mixed use, rental property, passive activity, non-passive activity, etc.) and how that affects taxation. See the "Is My Rental Property Tax Deductible?" flowchart.</li> <li>Ensure that you are appropriately deducting all eligible rental expenses that may apply to your situation (e.g., mortgage interest, property taxes, depreciation, repairs, insurance, HOA fees, legal fees, etc.), and that you are taking advantage of any tax deductions that may apply (e.g., special \$25,000 passive activity loss allowance, Section 199A QBI deduction, etc.). (continue on next column)</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |

| TAX & SALE ISSUES (CONTINUED)   | YES                      | NO                       |
|---|--------------------------|--------------------------|
| <p><b>Do you plan to sell your rental property?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>Any depreciation taken will be recaptured as ordinary income up to a 25% tax rate. Be mindful of this when preparing to pay for your tax liability.</li> <li>If your rental property was previously your principal residence, and you still meet the ownership and usage test requirements (generally, 2-out-of-5 years), you might consider selling the property while still eligible for the capital gains exclusion (up to \$250,000 Single/\$500,000 MFJ).</li> <li>If you plan to purchase an additional rental property, and if it makes sense for your financial situation, you might consider deferring capital gains taxes and depreciation recapture by utilizing a Section 1031 exchange. However, be mindful of the rules and requirements surrounding Section 1031 exchanges.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |

| ESTATE PLANNING ISSUES  | YES                      | NO                       |
|---|--------------------------|--------------------------|
| <p><b>Do you need to review the benefits of utilizing a rental property as an inheritance tool?</b> If so, consider the tax savings your heirs might enjoy due to a step-up in cost basis, and how that might complement their financial situation. Furthermore, any depreciation you enjoyed while alive will not be recaptured if your heirs decide to sell the rental property.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Do you need to review any issues your heirs may encounter by inheriting a rental property?</b> If so, consider the following:</p> <ul style="list-style-type: none"> <li>If your rental property makes up a large portion of your estate, your heirs may be stuck with an illiquid-estate issue. Be mindful of how this may affect their ability to pay any estate taxes or debts owed, and have a plan to address this potential challenge.</li> <li>Be cognizant of any potential disagreements among heirs on what to do with the property (e.g., keep, sell, buy out, etc.), and any financial and emotional hardships that may arise as a result.</li> </ul> | <input type="checkbox"/> | <input type="checkbox"/> |
| <p><b>Are you concerned about your rental property being subject to probate (or ancillary probate, if in another state)?</b> If so, consider putting the rental property in a revocable living trust if you wish to avoid probate.</p>  | <input type="checkbox"/> | <input type="checkbox"/> |

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