

Got or want U.S. rental property? TurboTax gives what-if scenarios

Software: TurboTax for 2010, Premier Version for Investments & Rental Property

\$74.95

Intuit, www.TurboTax.com

Rating: ★★★★★

The April 15 deadline for 2010 Federal returns has passed, but you may have filed for an extension. If so, you still can use 2010 TurboTax for Investments and Rental Property.

The software installed flawlessly. I went through the step-by-step method of entering data to experience that process. I recommend you do this in little pieces of time; the program is comprehensive and the questions it asks need attention so you have no time to nod off!

I found the questions to be thorough for the majority of Americans filing tax returns with solely rentals and investments within the United States. The program has many help screens to explain the special jargon of taxes, so I think anyone with a reasonable command of the English language and time to devote to the task will find the program user-friendly in that regard. The program's steps are in the same order as the tax return forms, so that makes it easy to see where it is going with the questions.

If you have any international entanglements, the TurboTax program falls short. The IRS is putting people in jail daily for not reporting their global

financial activities. I encourage you to seek a competent tax advisor knowledgeable in global affairs if you have any international activities (including foreign currency gains and losses from being a tourist). Give them all the facts to make sure you are in total compliance with the law.

If you think you just own a piece of property in Mexico, most likely you are actually the beneficiary of a Mexican land trust (U.S. citizens are legally barred from owning certain Mexican property). Penalties for failing to report that foreign trust properly can amount to 35% of the asset value.

If you think you just own a piece of property in Costa Rica, you most likely own a Costa Rican "S.A." corporation that owns the property, and it needs special disclosures. This program neither alerts you to those problems nor solves them.

Another common international investment is a foreign mutual fund, called "passive foreign investment companies" (PFICs) in the tax laws (see IRS Form 8621). These companies often do not pay dividends and do not send Form 1099 to U.S. shareholders.

Many special rules apply to them and the impact on you can be draconian if the rules are overlooked. Again, TurboTax never mentions them in its interview process.



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But, if you click on the government form hyperlink for the instructions for Schedule A and wade through the morass of instructions, you will find a reference to controlled foreign corporations but not PFICs—probably because the IRS never mentions PFICs in the Form 1040 instructions.

TurboTax does ask if you received a foreign inheritance (but not a gift). It tells you that Form 3520 might be needed but does not prepare the form. Failure to report a gift or inheritance from a foreign person can result in a penalty of up to 25% of the gift or inheritance. The TurboTax program does not mention those rules.

Also, the program talks about foreign trusts but does not mention Form 3520-A, which carries a penalty of 35% of the corpus and is due March 15 each year. I right-clicked the 'yes' box (or the 'no' box) on the form for Schedule A that asks about a foreign trust, and it suggested I look at Forms 3520, 2520-A, and 926. This was an obscure place to put that information. Who would think to right-click one of those boxes?

If you own property outside the U.S. and rent it, special rules apply. It is not depreciated over 27.5 years like a domestic property but must be depreciated over 40 years. The program asks if the property is located in a foreign country but only seems to use that information in the address field and not for the purpose of computing proper depreciation. California does not have this rule, but the program wouldn't let me change the way depreciation is computed for California.

I went into the asset worksheet and made a couple of technical overrides. The program allowed me to do that easily and produced the correct result for me. So, if you know what to do, you can tweak the program for this special rule and file a correct return.

Ordinary investors are limited in the amount of loss they can deduct from a rental property investment. But real estate professionals are not limited in the amount of deductions that arise from a rental property.

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Jacks Recommendations:

1. Shop for a repair facility before you need it.
2. Ask friends / coworkers for recommendations.
3. Arrange transportation before taking your car in.
4. Shop should be neat, clean & well-organized.
5. Staff should be friendly and knowledgeable.
6. Read policies covering costs, etc.
7. Is shop a specialist shop, or familiar with the repair you need ?

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Look at IRS Publication 527 for a brief discussion on this subject. If it applies to you and you have more than one property, you may need to make a special election to get the special treatment. (An “election” is simply a declaration on a piece of white paper that you have decided to treat something a special way in your return.)

The program just asks you if you are real estate professional and does not discuss the election (I also searched the help system and used Google). If you are a real estate professional and you intend to deduct all your tax losses from rental activities, seek help from a competent tax advisor to make sure you qualify and to make any special elections necessary.

Overall, the program is adequate if all your investments are in the United States and you get a Form 1099 from each of them. If you are not a real estate professional and just own one or a few rental properties for investment, the program will take care of you perfectly.

I recommend you buy Quicken and join the Quicken SIG to understand how to keep good records. At the end of the year, the Quicken information can be automatically transferred to TurboTax and make your tax return preparation a non-event (well, almost).

One valuable use of this program in this economy is to evaluate the impact of buying a piece of property for rental income—a what-if analysis. If you have an opportunity to buy a condo that can be rented, you can enter your income estimates and the rental property’s expenses and see if it will reduce or increase your income tax liabilities.

The program is well-suited for the casual investor in real property and other investments.

—By Tom Spott, GGCS, Realtor and CPA,
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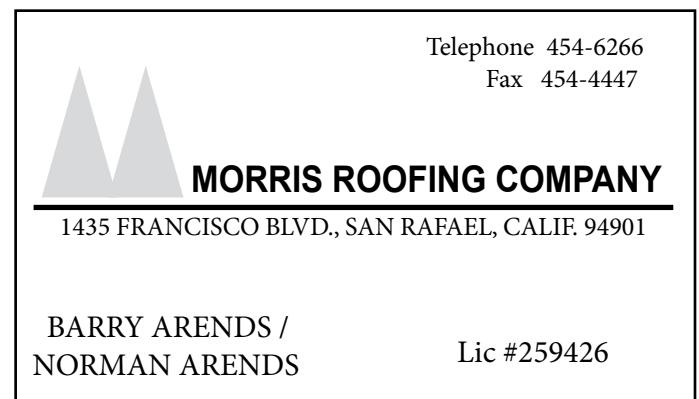
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