

MinnesotaCare:

Follow §0911.09.03 (Self-Employment Income) and §0911.09.03.03 (Self-Employment Income--MinnesotaCare).

MA/GAMC:

Rental property is property the client owns and rents to others, but where the client does not live. This may include separate living quarters in the same building, such as a duplex. For information on rental income from people living with the client, see §0911.09.03.17 (Roomer/Boarder Income).

Income from rental property may be earned or unearned. Follow the specific provisions for Method A and Method B to determine whether rental income is earned or unearned.

Deduct allowable self-employment expenses from both earned and unearned rental income. However, allow earned income disregards only for earned rental income. See §0912.05.09 (Earned Income Disregards--Method A) and §0912.05.09.05 (Earned Income Disregards--Method B).

When the client lives on the rental property, determine the rental property ratio. Divide the number of rooms or square footage that the client rents out by the total number of rooms or square footage in the building. To determine the portion of an expense that is an allowable deduction, multiply the expense by the ratio.

METHOD A:

Count income from rental property as earned income when the client spends an average of at least 20 hours per week maintaining or managing the property. Otherwise count it as unearned income.

Allowable expenses for rental property include:

- > Real estate tax.
- > Insurance.
- > Utilities.
- > Interest.
- > Upkeep and repairs.

In addition to the expenses listed above, allow up to \$103 per year or 2% of the estimated market value on the county tax assessment form, whichever is greater, for upkeep and repairs.

METHOD B:

Count income from rental property as earned income for each month the client spends an average of at least 10 hours per week maintaining or managing the property. Otherwise count rental income as unearned income.

Allowable expenses for rental property include:

- > Real estate tax
- > Insurance
- > Utilities
- > Interest
- > Advertising expenses
- > Lawn maintenance
- > Snow removal costs
- > Property management fees paid to a 3rd party

In addition to the expenses above, deduct expenses for upkeep and repairs made to maintain or repair existing structures or equipment. **Only consider minor corrections to an existing structure as a repair.** There is no limit to the amount of this deduction. Do not allow expenses for adding to or replacing existing structures or equipment to increase the value of the property.

EXAMPLE:

Tim owns rental property that has damage to the roof. Allow the expense to repair only the damaged area of the roof as a deduction from the rental income Tim receives for that month. If Tim decides to replace the entire roof do not allow this expense as a deduction from the rental income.

EXAMPLE:

Jill resides in an LTCF and has a life estate interest in a home. She is receiving rental income monthly. Jill's AREP determines that the house is very drafty and expensive to heat in the winter due to the homes' very old windows. The AREP has all of the windows in the house replaced and requests that this expense be deducted from the rental income. This is a capital expenditure and cannot be allowed as a deduction from Jill's rental income.

If it is uncertain whether an expense is for repair or replacement, submit a policy

interpretation question to HealthQuest.

If the rental income is part of a self-employment enterprise, annualize gross rental income and expenses. Otherwise follow the instructions below.

- > Subtract the allowable deductible expenses paid in a month from the gross rental income received in the same month.
- > If the allowable deductible expenses paid in a month exceed the gross rental income in the same month, subtract the excess expenses from the next month's gross rental income. Continue to do this as necessary until the end of the tax year in which the expense is paid.
- > If there is still excess expenses after applying the expenses to the future months rental income, subtract the remaining excess expenses from the gross rental income received in the month prior to the month the expenses were paid. Continue to do this as necessary to the beginning of the tax year involved.

EXAMPLE:

Alfred is living in an LTCF. He owns a life estate that is currently being rented for \$600 a month. Half of his property tax of \$900 is due in May. Alfred pays the \$900 in May. Deduct \$600 of the property tax payment from the rental income received in May. There is a balance of \$300 that can be deducted from the rental income received in June.

Note: Do not carry excess expenses over to other tax years. Do not use excess expenses to offset other income.