

VACATION-HOME OWNERS get shot a free money

WASHINGTON — Many of the seven million American households who own vacation homes or recreational real estate are missing out one of the federal tax code's most generous provisions: the rare right to earn money, with no dollar limit, and put it into your pocket, completely tax-free.

You don't even have to report it to Uncle Sam. And for large numbers of property owners, the kickoff of the summer season marks the prime time to take Uncle Sam up on the offer.

The tax loophole under Section 2800(a) of the Internal Revenue Code is available only if you own what can qualify as residential property that is primarily for your personal use. That definition is far broader than you may think, and takes you beyond

Nation's housing

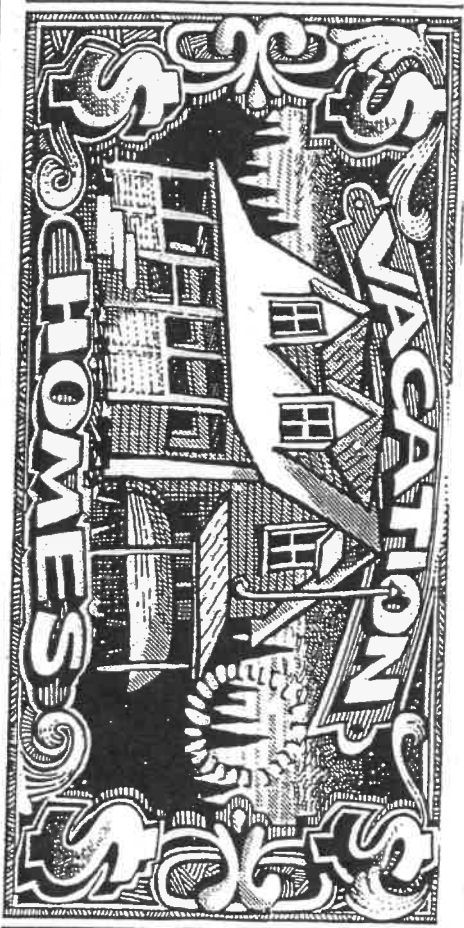
KENNETH HARNEY



The strict definitions of real estate.

A second home for federal tax purposes can be a house, a cabin, a condo, a co-op, a mobile home, a trailer, sailboat or powerboat. The minimum essentials are some form of cooking facilities, toilet and a place to sleep.

The tax-free income provision works like this: If you rent out your second-home property for less than 15 days during the year, you can put (See HARNEY, Pages 5-C)



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Leonard E. Hutner, accountant

\$400 for a weekend. If you rented the place out for a series of seven two-day weekends (Friday night to Sunday night), you could earn \$2,800 tax-free.

Another example, this time involving your principal residence: Say you live in a college town, where an fall football weekends or other big event periods of the year such as reunions, there is a demand for accommodations. Or you live near a tourist

have a need for short-term residential space at the same time and offered the owner "in excess of \$25,000." Nobody sneezes at that sort of tax-free cash.

Other vacation-home tax issues that accountants urge money-wise property owners to be aware of:

■ Though many vacation homeowners who rent out their units for 15 days a year or more are aware of the tax code's limitations on "personal use," they often don't really understand what "personal" means to the Internal Revenue Service.

Once you use your unit more than 14 days a year, you trigger automatic limits on your potential "rental property" deductions for tax losses attributable to the unit. (For homeowners with \$100,000 adjusted gross

incomes or below, qualified rental write-offs under the "passive activity loss" system can go as high as \$25,000 a year.) Though owners may carefully document their own actual personal use and keep it under 14 days, accountants say they commonly forget that any of the following constitute "personal" use:

■ Any use of your unit by another individual that allows you in turn to use some other unit ("unit swapping arrangements");

■ Any use by a member of your family (brothers, sisters, spouses, grandchildren, children, great-grandchildren) unless they're using the place as their "principal residence" and paying you a fair-market rental.

(Kenneth H. Harney is a syndicated columnist.)

that money into your bank account tax-free. The fact that you earned it does not prevent you from taking the normal second-home tax deductions — mortgage interest and property-tax write-offs. Since your second residence in this case is not defined as a "rental" property by federal tax-law standards, you cannot take deductions on it for depreciation, management fees, advertising and similar business expenses.

But the ability to earn what can be significant income is "too good to let slip by. If you can manage to qualify," according to Washington accountant Leonard E. Hutner, a partner in the CPA firm of Bond, Beebe, Barton & Muckelbauer. Hutner confirms that large numbers of real-estate owners — even highly sophisticated taxpayers — are failing to take advantage of the under-15-days provision.

Examples of how you can make the most of the law:

Say you own a condo townhouse at a resort. You and your family use it as often as possible, and let guests and friends use it when you're not. Even so, on numerous weekends during the year, the place is empty.

Similar units rent for a minimum

2ND HOME - 15 Days of TAX
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