TAX & WEALTH STRATEGY

Questions to Ask Your CPA or Tax Adviser

A practical checklist for passive real estate investors.

Private apartment investments can create tax consequences that are very different from those associated with a salary, brokerage account, or publicly traded stock. You may receive Schedule K-1s, depreciation allocations, passive income or losses, state filing obligations, capital-gain consequences, tax effects from refinancing or sale, and additional complexity when investing through retirement or other entities.

But the tax result can be different for every investor. The same apartment investment may create a useful current-year tax benefit for one investor and little immediate benefit for another. Your CPA or tax adviser should evaluate the investment in the context of your own income, existing investments, tax attributes, ownership structure, and long-term plan.

THE IMPORTANT IDEA
Do not ask only, "What are the tax benefits?" Ask: How are the tax characteristics of this investment likely to apply to me?

01 HOW WILL THIS INVESTMENT BE TREATED ON MY TAX RETURN?

Know what reporting to expect before year-end.

☐ ***Ask your adviser:***

- Where will the income or loss appear?
- Will I receive a Schedule K-1?
- How will it interact with my other income?
- Are there special forms or filings?

02 WILL I BE ABLE TO USE ANY TAX LOSSES ALLOCATED TO ME?

Receiving a loss does not always mean you can deduct it now.

☐ ***Ask:***

- Are the losses likely passive?
- Do I have passive income they can offset?
- Could losses be suspended?
- What other limits may apply?

Key question: If this investment generates a tax loss, when am I likely to be able to use it?

03 HOW DO BASIS AND AT-RISK RULES AFFECT ME?

☐ ***Ask:***

- How will my tax basis be determined?
- What can increase or reduce it?
- Could basis limits prevent loss use?
- Are at-risk limits relevant?

You do not need to calculate this yourself. The K-1 number is only part of the analysis.

04 HOW WILL DEPRECIATION AFFECT MY TAXABLE INCOME?

☐ ***Ask:***

- How will depreciation appear on my return?
- Can it reduce passive income?
- Could it create suspended passive losses?
- How should I view it over the full hold?

For background, see Depreciation in Plain English in the Learning Hub.

05 HOW COULD COST SEGREGATION AFFECT ME?

☐ ***Ask:***

- Could accelerated depreciation provide a current benefit?
- Would losses likely be suspended?
- How might timing affect future years?
- What happens at sale?

Remember: A larger deduction does not automatically mean a larger current tax benefit.

06 HOW WILL CASH DISTRIBUTIONS BE TAXED?

☐ ***Ask:***

- Will operating distributions generally be taxable when received?
- How could distributions affect my basis?
- Could I receive cash while reporting little taxable income?
- Could I owe tax when cash distributions are limited?

Cash flow and taxable income should be evaluated separately.

07 WHAT HAPPENS IF THE PROPERTY REFINANCES?

☐ ***Ask:***

- How might refinance proceeds be treated?
- Could a distribution exceed my tax basis?
- How would a refinance affect basis going forward?
- Does additional property debt affect my position?

Do not assume every refinance distribution is automatically tax-free in every circumstance.

08 WHAT SHOULD I EXPECT WHEN THE PROPERTY IS SOLD?

☐ ***Ask:***

- How is gain likely to be calculated?
- How will prior depreciation affect the sale?
- Could depreciation recapture or other treatment apply?
- What happens to suspended passive losses?
- What state taxes could apply?

09 COULD I HAVE TO FILE TAX RETURNS IN OTHER STATES?

☐ ***Ask:***

- Will the property state create a filing obligation?
- Does the partnership make composite filings?
- Will state withholding apply?
- Could several properties mean several state returns?

10 HOW SHOULD I PLAN FOR K-1 TIMING?

☐ ***Ask:***

- When should I expect the K-1?
- Should I plan to extend my return?
- What if a corrected K-1 arrives later?
- Are there estimated-tax implications while I wait?

For additional background, see K-1 Timing and What to Expect.

11 SHOULD I INVEST PERSONALLY OR THROUGH AN ENTITY?

The structure should solve an actual problem.

☐ ***Discuss:***

- Individual or joint ownership
- LLCs
- Trusts
- Other structures

Ask whether an entity creates a meaningful tax benefit, extra filings, administrative cost, or estate-planning implications.

12 DOES IT MAKE SENSE TO USE A RETIREMENT ACCOUNT?

☐ ***Ask:***

- Would the tax characteristics make a retirement account more or less attractive?
- Could leveraged real estate create UBTI or UDFI?
- What additional reporting might be required?
- Does the illiquidity fit my retirement needs?

For background, see Investing Through Retirement Accounts.

13 HOW DOES THIS INVESTMENT INTERACT WITH MY OTHER REAL ESTATE?

☐ ***Ask:***

- Should I evaluate this separately?
- Could it change the treatment of other real-estate income, losses, basis, or passive activity?

14 DO I HAVE SUSPENDED PASSIVE LOSSES ALREADY?

☐ ***Ask:***

- Do I currently have suspended passive losses?
- Where are they coming from?
- What events could allow me to use them?
- How might a new investment affect that picture?

15 SHOULD I CHANGE MY ESTIMATED TAX PAYMENTS?

☐ ***Ask:***

- Should quarterly estimated taxes change?
- Should payroll withholding change?
- Should I reserve additional cash?
- How should we handle uncertainty before the K-1 arrives?

A potential tax benefit is not the same as a cash-management plan.

16 HOW SHOULD I KEEP RECORDS?

☐ ***Retain what your adviser recommends, including:***

- Subscription documents
- Capital-contribution records
- K-1s
- Distribution and capital-call records
- Sale or refinance documentation
- Tax-basis information

17 WHAT SHOULD I PROVIDE YOU EACH YEAR?

☐ ***Ask what will make tax preparation easier:***

- K-1s
- Investor statements
- Distribution notices
- State tax documents
- Prior-year suspended-loss schedules

Make the relationship proactive. Do not wait until April to discover your adviser needed information months earlier.

18 ARE THERE TAX-LAW CHANGES WE SHOULD BE WATCHING?

☐ ***Review periodically:***

- Depreciation
- Passive losses
- Capital gains
- Estate planning
- Retirement accounts
- State taxation

The correct answer today may not remain correct throughout a long real-estate hold.

TAX & WEALTH STRATEGY

When Something Changes

Questions to bring back to your adviser after a major investment event.

IF THERE IS A REFINANCE	How does this affect my basis? Is any portion taxable? Should I reserve money for taxes?
IF THERE IS A CAPITAL CALL	How does the additional contribution affect my basis? What records should I retain?
IF THE PROPERTY SELLS	What gain should I expect? What depreciation-related tax consequences could apply? What happens to suspended losses? Will multiple state returns be required?
IF THE INVESTMENT GENERATES A LARGE LOSS	Can I use it? If not now, where is it tracked? What could allow me to use it later?

ROBERT'S PERSPECTIVE

I WANT MY CPA INVOLVED BEFORE THE TAX RETURN IS DUE.

One mistake investors can make is treating the CPA as someone they speak with only after the year is over. By then, many decisions have already been made.

If I am making a meaningful investment, receiving significant refinance proceeds, selling an investment, or considering a different ownership structure, I want to understand the tax implications while I still have the ability to plan.

MY RULE

Use the tax adviser to help plan the decision - not simply report it afterward.

And I never want the tax benefits to become the reason I make the investment. The property, market, sponsor, financing, business plan, and risk still have to make sense first.

THE FIVE QUESTIONS I WOULD MAKE SURE TO ASK

1. **If this investment generates losses, will I actually be able to use them?**
2. **How will distributions, refinancing proceeds, and eventual sale affect my tax basis?**
3. **Could this investment require me to file tax returns in additional states?**
4. **What should I expect when this property eventually sells?**
5. **Is there anything about my individual tax situation that makes this investment structure unusually helpful - or unusually complicated - for me?**

THE MOST IMPORTANT TAKEAWAY

TAX BENEFITS ARE PERSONAL. Two investors can invest the same amount in the same apartment property and receive the same K-1, yet their actual tax outcomes may be very different. The question is not simply "What tax benefits does this investment offer?" It is: How will those tax characteristics apply to my individual situation?

EDUCATIONAL PURPOSE

This checklist is provided for general educational and informational purposes only and does not constitute tax, legal, accounting, financial, or investment advice. Tax outcomes depend on individual circumstances and may be affected by passive-activity rules, basis limitations, at-risk rules, state taxation, depreciation treatment, ownership structure, changes in tax law, and other factors. Investors should consult their own qualified tax and legal advisers regarding the tax consequences of any specific investment or transaction.