Lesson Plan

Income – Schedules K-1 and Rental

Time Required: 30 minutes

Introduction	Objectives	Topics
This lesson covers the reporting of certain income from Schedules K-1 and the reporting of rental income and expenses. Schedules K-1 is in scope for Advanced and Rental Income and expenses is in scope only for Military families renting their personal residence.	Identify Schedule K-1 income items that are within the scope of the VITA/TCE programs. Determine how to report Schedule K-1 income items. Determine which types of rental income must be reported. Identify how to report rental expenses.	 Schedule K-1  Rental Income and Expenses Depreciation Special Allocations Rental Loss

Key Terms

Actual Expense Method: One of two methods for calculating business automobile expenses. For the actual expense method, the taxpayer determines the business portion of expenses for fuel, auto maintenance, parking fees and tolls, and auto loan interest. (The other method is the standard mileage method.) The actual expense method is out of scope for the VITA/TCE programs.

ADS: Alternative Depreciation System.

At-risk Rule: One of two restrictions on how much a loss from passive activity can offset other sources of income. Taxpayers are restricted from claiming a loss for more than they could actually lose from the activity; they can claim a loss only up to the amount for which they are personally at-risk in the activity. (The other restriction is the passive activity rule.)

Basis: The basis in a home is determined by how the taxpayer obtained the home. If a taxpayer bought or built a home, the basis is what it cost the taxpayer to buy or build that home. If the taxpayer inherited the home, generally the basis is its fair market value on the date of the decedent's death, or on the later alternate valuation date chosen by the representative for the estate.

Cash Method of Accounting: Accounting method that reports income when constructively received (not earned) and expenses when paid (not incurred), as opposed to the accrual method.

Depreciation: An annual deduction that allows taxpayers to recover the cost of property used in a trade or business or held for the production of income. The amount of depreciation depends on the basis of the property, its recovery period, and the depreciation method.

Investment Income: Investment Income includes taxable interest and dividends, tax-exempt interest, capital gain net income, net income from rents and royalties not derived from a trade or business, and net income from passive activities.

Modified Accelerated Cost Recovery System (MACRS): Depreciation method for property placed in service after 1986. MACRS calculates a taxpayer's depreciation deduction by using the property's placed-in-service date, recovery period, and depreciable basis.

Passive Activity: When a taxpayer receives income mainly from the use of property rather than for services. Passive activity means the taxpayer is not involved in making significant rental or business management decisions (versus active participation). Because rental activities are generally considered passive activities, rental losses may not be fully deductible.

Rental Expenses: Ordinary and necessary expenses attributable to the production of rental income and maintenance of the rental property, such as advertising, cleaning and repairs, insurance premiums, and property management fees.

Rental Income: Payments received by a taxpayer from tenants who rent the taxpayer's property, including regular and advanced rent, payments for breaking a lease, expenses paid by the tenant, and the fair market value of property or services received in lieu of monetary rental payments.

Schedule K-1 (Form 1041): Used by the fiduciary of a domestic decedent's estate, trust, or bankruptcy estate to report income, gains, losses, etc., of the estate or trust.

Schedule K-1 (Form 1065): Used by partnerships to report the taxpayers' share of the partnership's income, deductions, credits, etc.

Schedule K-1 (Form 1120S): Used by S corporations to report the taxpayers' share of the corporation's income (reduced by any tax the corporation paid on the income), as well as any deductions, credits, etc.

Standard Mileage Method: One of two methods for calculating business automobile expenses. For the standard mileage method, the taxpayer multiplies the business miles by the mileage rate for that tax year. (The other method is the actual expense method.)

Teacher Tips

Guidelines for Lesson

Guideline	Instructor Notes	Presentation Aids
Lesson background info	**Clarify** that this lesson does not apply to taxpayers who are in the business of renting properties. **Review** the online demo of TaxSlayer on Rental Income.	**TaxSlayer® Demo:** From the Practice Lab, select: • TaxSlayer IRS training • Click the appropriate demo
Provide details and engage the students	**Discuss** all tips and cautions and discuss the key terms in the lesson. **Ask** students to read and/or role-play examples and sample interviews. **Review** answers to each exercise; ask students how they arrived at their answers.	**Internet:** Link & Learn Taxes (L&LT) Advanced or Military level: Income – Schedules K-1 and Rental

Topic-specific Tips

Topic Name	Instructor Notes	Presentation Aids
Introduction	**Review** lesson objectives. **Point out** that this lesson is one of nine lessons on income. **Review** list of references. **State** the presentation time. **Emphasize** the need to ask taxpayers if they rented their home during the tax year or if they received a Schedule K-1 or Form 1099-MISC with no associated expenses. **Remind** students that taxpayers are not required to report income and expenses if their home is rented less than 15 days. **Direct** students to Pub 4012, Table A – Examples of Taxable Income and point out rents, royalties, and certain income from Schedules K-1.	**Visuals:** Form 1040 Schedule 1 Form 13614-C, Page 2 Form 1099-MISC, Box 2 Form 1065 Schedule K-1 Form 1041 Schedule K-1 Form 1120S Schedule K-1 Pub 4012, Tab D, Income: • Table A – Examples of Taxable Income • Examples of income items

Schedule K-1	**Remind** students that Schedule K-1 income that is in scope is limited to certain income topics. **Review** entries for Schedule K-1 in TaxSlayer. **Review** L&LT topic Schedule K-1. **Review** the income reported on Schedule K-1 that is in scope. **Caution** students that royalty income is in scope only when the source document of the royalty income is reported on Schedule K-1 or Form 1099-MISC, Box 2, Royalties with no associated expenses. **Direct** students to Pub 4012, Entering K-1 Information in TaxSlayer pages	**Visuals:** Student Landing Page questions Form 1065 Schedule K-1 Form 1041 Schedule K-1 Form 1120S Schedule K-1 Form 1040 Schedule E, Part I Pub 4012, Tab D, Income, Entering K-1 Information in TaxSlayer
Rental Income and Expenses	**Review** L&LT topic Rental Income and Expenses. **Point out** the following questions on Schedule E: • Question A • Question B **Prompt** students to give examples of deductible rental expenses. **Remind** students that the standard mileage rate for 2026 is 72.5 cents per business mile. **Remind** students the John Princeton exercise question about reporting taxes on Schedule E. **Verify** students understand the difference between repairs, which are deductible, and improvements, which must be depreciated. **Demonstrate** using the tax software by linking to Schedule E.	**Visuals:** Schedule E, Part I Schedule E Instructions Pub 4012, Tab D, Income, Entering K-1 Information in TaxSlayer Schedule A Pub 527, Chapter 5, Personal Use of Dwelling Unit (Including Vacation Home) **Internet:** L&LT Income – Schedules K-1 and Rental, Rental Income and Expenses FAQ, Can I claim rental expenses? Interactive Tax Assistant, Can I Deduct My Mortgage Related Expenses? **TaxSlayer Demo:** Form 1040 link to Schedule E

Practice	**Review** with students the Worksheet **Walk through** L&LT Skills Warm Up	Pub 527, Worksheet 5-1, Figuring Rental Deductions for a Dwelling Unit Used as a Home L&LT Income – Schedules K-1 and Rental, Skills Warm Up
Depreciation	**Review** L&LT topic Depreciation. **Ask:** What are some examples of depreciable property? **Answer:** Buildings, machinery, furniture, vehicles, improvements to rental property. **Remind** students that the value of land and land improvement is not depreciable.	**Visual:** Pub 4012, Tab D, Income, Entering K-1 Information in TaxSlayer Pub 946, Appendix A, Tables for Depreciation Pub 946, Table B-1, Table of Class Lives and Recovery Periods Pub 527 Pub 551 Schedule E
Special Allocations	**Review** L&LT topic Special Allocations. **Review** the Gloria example with the class. **Point out** that taxpayers who rent out part of a property allocate mortgage interest and property taxes separately on both schedules (A and E). **Remind** students that rules for deducting expenses are different if taxpayers rent a dwelling unit that is also used for personal purposes. **Review** the rules for personal use test on using a dwelling unit as a home. **Direct** students to review the Worksheet for Figuring Rental Deductions for a Dwelling Unit Used as a Home in Pub 527, Chapter 5, Personal Use of Dwelling Unit (including Vacation Home).	**Visuals:** Pub 4012, Tab D, Income, Entering K-1 Information in TaxSlayer Schedule E, Question 2 Schedule A Pub 527, Chapter 5 **Internet:** L&LT Income – Schedules K-1 and Rental, Special Allocations

Rental Loss	**Review** L&LT topic Rental Loss. **Emphasize** that passive activity losses can be deducted only from passive activity income. Taxpayers who are not active participants may not deduct rental losses that exceed rental income.	**Visuals:** Instructions for Schedule E Pub 925 Form 8582
Skills Workout	**Review** the Skills Workout with the class. **Review** the out of scope issues with the class.	**Visuals:** L&LT Income – Schedules K-1 and Rental, Summary L&LT Income – Schedules K-1 and Rental, Click Certification Warm Up icon to review the exercises

References	
Form 1040	Form 1040
Form 1040, Schedule 1	Form 1040 Schedule 1
Form 1040 Instructions	Form 1040 Instructions
Form 13614-C	Form 13614-C, Intake/Interview and Quality Review Sheet, Page 2
Form 1041 Schedule K-1	Form 1041 Schedule K-1
Form 1065 Schedule K-1	Form 1065 Schedule K-1
Form 1120S Schedule K-1	Form 1120S Schedule K-1
Form 8582	Form 8582, Passive Activity Loss Limitations
Form 1040 Schedule A	Schedule A
Form 1040 Schedule E	Schedule E, Part I
Schedule E Instructions	Schedule E Instructions, page 2, At-Risk Rules and Passive Activity Loss Rules
Pub 4012	Pub 4012, Volunteer Resource Guide, Tab D, Income Examples of Taxable Income Entering K-1 Information in TaxSlayer
Pub 527	Pub 527, Chapter 5, Personal Use of Dwelling Unit (Including Vacation Home)

Optional	
Pub 527	Pub 527, Residential Rental Property
Pub 541	Pub 541, Partnerships
Pub 551	Pub 551, Basis of Assets
Pub 559	Pub 559, Survivors, Executors, and Administrators
Pub 925	Pub 925, Passive Activity and At-Risk Rules
Pub 946	Pub 946, How to Depreciate Property

Recommended Classroom Activities



Skills Workout: Link & Learn Taxes Income –Schedules K-1 and Rental

Click Skills Workout to access Link & Learn Taxes Income – Schedules K-1 and Rental.

Certification Warm Up – Summary and Exercises

Click Certification Warm Up to access the Summary and Exercises in Link & Learn Taxes Income – Schedules K-1 and Rental.

Media: Video & Audio for Lesson

There is no media associated with this lesson.

TaxSlayer Tips and Resources for Lesson

TaxSlayer Training Video	Advanced Tax Topics, Part 2
Practice Lab Tutorial	From the Practice Lab: 1. Enter the universal password (if you do not have the password, you can request it from your site coordinator or SPEC relationship manager). 2. Sign in to Practice Lab or create an account. 3. Select the appropriate tutorial.

Job Aids – ITA and FAQs for Lesson

FAQs	Can I claim rental expenses? https://www.irs.gov/faqs/sale-or-trade-of-business-depreciation-rentals/rental-expenses
Interactive Tax Assistant	Can I Deduct My Mortgage Related Expenses? https://www.irs.gov/help/ita/can-i-deduct-my-mortgage-related-expenses

Practice Lab

Practice Lab	https://vita.taxslayerpro.com/IRSTraining