7 Tax Deductions Real Estate Investors Overlook

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Now that the IRS has extended the tax filing deadline to [May 17](https://www.fool.com/millionacres/taxes/articles/irs-to-delay-tax-day-again-why-investors-should-care/) (June 15 for expats and those in Louisiana, Oklahoma, and Texas), many [real estate investors](https://www.fool.com/millionacres/real-estate-investing/real-estate-investing-guide/) have more time to work with an advisor and learn how to maximize [deductions](https://www.fool.com/millionacres/taxes/real-estate-tax-deductions/real-estate-tax-deductions-guide/) this tax season.

Top of Form

If you have yet to file, there's still time to do your research and claim the deductions you're qualified to receive. In general, the IRS allows taxpayers to deduct any expense that's [ordinary and necessary](https://www.irs.gov/businesses/small-businesses-self-employed/deducting-business-expenses) to their trade or business. As a real estate investor, there are a few "ordinary and necessary" expenses you don't want to overlook this [tax season](https://www.fool.com/millionacres/taxes/taxes-guide/)!

1. Business miles

As a real estate investor, you likely spend a substantial amount of time traveling to your investment properties. Whether it's traveling to research a [new property](https://www.millionacres.com/real-estate-basics/articles/what-are-best-properties-investment/) or to close on a new [rental](https://www.fool.com/millionacres/real-estate-investing/rental-properties/rental-properties-guide/) investment, you have spent time on the road putting your car to work.

For that work, the IRS has a little reward for you. You can claim a deduction for the business use of your vehicle. Here's more on that.

Standard mileage

If you use your vehicle in connection to your real estate activities, you can claim either the [standard mileage rate](https://www.irs.gov/newsroom/irs-issues-standard-mileage-rates-for-2021) or the [actual expense](https://www.irs.gov/pub/irs-pdf/p463.pdf) you incurred for putting your vehicle [in service](https://www.irs.gov/taxtopics/tc511). The standard mileage rate for 2021 is 56 cents (down from 57 cents in 2020). So that means you can claim 56 cents per mile for business use if you claim the standard mileage rate.

If, for example, you drive 1,000 miles conducting real estate activities during the tax year, you would multiply 1,000 by .56. The product is 560. This means you'll claim a deduction of $560 on your tax return.

You should also note that you won't be able to claim the standard mileage rate for a vehicle if you use any depreciation method under the Modified Accelerated Cost Recovery System (MACRS) or if you claim a [Section 179 deduction](https://www.irs.gov/newsroom/irs-issues-guidance-on-section-179-expenses-and-section-168g-depreciation-under-tax-cuts-and-jobs-act#:~:text=Section%20179%20allows%20taxpayers%20to,property%20is%20placed%20in%20service.&text=The%20Section%20179%20deduction%20applies,taxpayer%20elects%2C%20qualified%20real%20property.) on that vehicle.

Actual expenses

As for actual expenses, the total deduction you claim will be unique to each taxpayer. In general, you could claim a deduction for your title, fees and registrations, lease payments, maintenance, repairs, car washes, insurance, etc. Since the actual expense is unique to each taxpayer, [practicing good record keeping](https://www.irs.gov/businesses/small-businesses-self-employed/recordkeeping) is of the utmost importance.

2. Travel, parking, and tolls

In addition to claiming a mileage deduction, you can also claim a deduction for business-related travel. This deduction is for the expenses you incur while traveling between your home and your business destination. So, if you catch a bus, board a train, rent a car, or even hop on a plane, you can claim this expense this tax season.

You can also claim a deduction for the parking and toll fees related to your real estate investment activities. So, if you pay for parking or a toll while visiting a new property (i.e., business use of your vehicle), you can deduct this expense from your income.

Typically, these deductions are claimed on [Schedule C](https://www.irs.gov/pub/irs-pdf/f1040sc.pdf), but always check with your tax advisor before claiming any deductible expense.

3. Business gifts

In addition to having business meals with your clients, you may have given your clients a gift during the tax year. Whether it's to celebrate the [close of a business deal](https://www.millionacres.com/real-estate-market/articles/unexpected-but-useful-closing-gifts-for-multifamily-buyers/) or given as a token to commence a new transaction, the IRS has a deduction available for your act of kindness.

You can claim a deduction for business gifts that cost [$25 or less](https://www.irs.gov/forms-pubs/about-publication-463) per person. To be considered a gift, the gift cannot be one that costs $4 or less and contains the company name permanently engraved (e.g., gifting a company pen or calendar). Also, if the gift could also be considered entertainment, the IRS will construct it as a gift as entertainment, and the deduction will be disallowed.

4. Business meals

As you may know, the [Consolidated Appropriations Act](https://www.congress.gov/bill/116th-congress/house-bill/133/text) (CAA) was passed on Dec. 21, 2020. With the passage of this act, the business meals deduction received a makeover. The CAA has made certain qualified business meals 100% deductible going forward.

For tax years 2021 through 2022, you can claim a 100% deduction for business meals. This deduction is still at 50% for tax year 2020. While you cannot claim the 100% version of this deduction until the 2021 tax year, the best time to start thinking about the future is now!

To claim this deduction, the meals cannot be "[lavish or extravagant](https://www.irs.gov/publications/p463#en_US_2020_publink100016951)" and must have been purchased in connection to your business activity. Additionally, the meals must be provided at a restaurant, you or an employee must be present during the meal, and the expense must have been incurred during the specified tax years (2021-2022). If your business meals meet these requirements, you're in luck: You can claim this deduction through 2022.

Entertainment expense

Since the deduction for meals has made a comeback, you may be wondering if you can claim a deduction for entertainment expenses. At present, this expense is still disallowed, but there are still plenty of deductions available to you this tax season.

5. Interest expense

As a real estate investor, you may know that you can deduct [mortgage](https://www.fool.com/millionacres/real-estate-financing/mortgages/mortgages-guide/) interest, but did you know that you can deduct any interest you pay associated with your rental property?

So, that credit card interest or loan interest you incurred in connection to your real estate activity is deductible as a business expense. The deductibility of business interest is without limitation for businesses who have gross receipts of [$26 million](https://s3.amazonaws.com/public-inspection.federalregister.gov/2020-16531.pdf). If your gross receipts are in excess of $26 million for the tax year, you'll be subject to limitation on the deduction for business interest expense.

If you fall into this category, consult with your tax advisor, as there are ways for you to opt out of the limitation, like qualifying as an Excepted Trade or Business.

6. Legal and other professional fees

While the IRS doesn't specifically mention professional fees in the Internal Revenue Code, if the fee is ordinary and necessary for trade or business, you can claim a deduction for the professional fee paid. Generally, this deduction is claimed on [Schedule C](https://www.fool.com/millionacres/real-estate-investing/articles/boost-your-tax-iq-10-things-real-estate-investors-should-know/).

7. Advertising

In general, you can deduct the cost of advertising your trade or business. Whether it's for your Airbnb (NASDAQ: ABNB) or your [commercial real estate](https://www.fool.com/millionacres/real-estate-investing/commercial-real-estate/commercial-real-estate-guide/) property, this expense is normally deductible to you as a taxpayer, and you don't want to miss out on it!

While this expense is normally deductible, the IRS doesn't allow a deductible expense for advertising that by nature has been incurred to build your [professional reputation](https://www.irs.gov/publications/p529#en_US_202012_publink10004500).