

RENTING

Deducting income property expenses

By JANET PORTMAN
Inman News

Q: I purchased a new carpet, some appliances and a hot tub for the condo I bought to use as income property. Can I deduct these costs from my taxes?

A: The cost of getting your rental business up and running is called a startup expense. You can deduct up to \$5,000 worth of startup expenses in the first year you are in business, and the remainder in equal amounts over the next 15 years. Put another way, if your business were up and running, and you incurred these costs and could deduct them as regular operating expenses, then you can deduct them when the business begins as startup expenses.

The tricky thing about startup expenses is making sure you've categorized an expense correctly. These expenses include minor repairs needed to get a business or property up and running, but they do not include an improvement to the property, which is a capital expense.

So, for example, if you spend money repairing the furnace, that's a startup expense; but if you buy a new furnace, that's a capital expense, which is treated differently. It's depreciated over the item's useful life, which is five or seven years for most personal property. The carpet, appliances and hot tub are probably personal property. (IRC Section 195.)

Q: I inherited my mother's house and rented it to tenants who are complaining about noise from the neigh-



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Some costs related to opening a rental business are not considered startup expenses.

bors. The neighboring property is a town house that's occupied by college students (who are also renters), and they do indeed make a racket, with loud parties many nights. I've talked to them and tried to get them to quiet down, to no avail.

My renters are telling me that they can break their lease (and not be responsible for rent for the rest of the lease term) because of this situation. Since I can't evict the neighbors, it seems to me that I've done all I can do, and that my tenants should not be able to get out of their lease.

A: Your tenants will indeed have the right to break the lease, with no responsibility for future rent, if the situation has become intolerable — even if you're doing all you can do to make things better. An intolerable situation would be one in which a reasonable person could not live peacefully in his home. Night after night of loud parties next door would probably qualify in most judges' eyes.

But there may be solutions that you haven't tried yet.

First, talk to the town house owners and see if they will deal with their tenants (they have the power to terminate the

lease if the students' behavior truly disturbs the peace of the neighborhood). Next, find out if your city has a noise ordinance, and if it does, tell your tenants to arrange for the noise to be measured. Try to have the city send any notices of violations (and fines) to the town house owner, not the students. That might get results — in fact, cities are increasingly passing laws that specify that fines for nuisance behavior must go to the owners.

Finally, talk to the homeowners association for that development. The association undoubtedly has a rule prohibiting unnecessary noise, and you can ask them to enforce it (unfortunately, you cannot sue to enforce it, because you aren't a member of the association).

If all else fails, consider a lawsuit in small claims court, in which you describe the situation as a public nuisance, and ask the judge to order the noisemakers to stop and to pay your tenants damages for having put up with the problem.

Although this may seem like a lot of work, understand that you will continue to face this problem with your next batch of renters until you've got the situation under control.

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Planning aside, attitude crucial to being debt-free



CAROLYN BIGDA
Getting Started

Paying down debt is a methodical act, and one that many of us are now doing as we face holiday bills. Each month, you make a payment that covers interest and principal. You set a budget to cover the bill. And little by little, the debt goes away.

Staying out of debt is something different, says Carrie Rocha in her book, "Pocket Your Dollars," (Bethany House Publishers, \$13.99). The past several years, Rocha, a mother of two from Minnesota, has been writing about how to stretch your budget, reduce debt and snag deals using weekly circulars and promotions. She got her start, in part, from her experience of paying off more than \$50,000 in debt in 2½ years with her husband, Marco.

It was the second time Rocha dug herself out of a financial hole, and she has remained debt-free since. She argues that the key to staying out of the red is more a matter of attitude than method. Recently, I spoke with Rocha by phone about the money attitudes we need to adopt in order to stay out of debt. What follows is an edited version of that discussion.

Q: Why do you think staying out of debt is more about a way of thinking and less about budgets and spending plans?

A: It comes out of my own story. I've always wanted to do the right thing. I'd save every month. I knew I was supposed to have a budget and not spend everything I made.



"You have to tell yourself, 'Today, the amount of money I have ... is enough.'"

— Carrie Rocha

And yet I couldn't stop doing it. I had been tracking our expenses since 2004, and I watched us go into debt.

Q: You have been out of debt for several years now. What have you done differently?

A: It wasn't a new strategy of how to do a budget and live within our means. Those (strategies) are out there and people know them. What was different was that my husband and I talked about why we were in debt. We decided to change the way we think about money. And when you really have some right thinking, the behavior just flows out of it.

Q: What is the most important attitude change people should make about finances?

A: We often think that if we only had more money, our problems would be solved. But when you operate like that, you're pushing out the start date for when you'll change

your situation. You'll have more money once the kids are out of diapers or once you've made the final car payment. That kind of thinking has to stop. You have to tell yourself, "Today, the amount of money I have, however big or small, is enough. I'm going to make that money work for me." When you start thinking like that, you now have the power to start changing your financial situation

Q: Why do we so often go back into debt?

A: We tell ourselves, "I'll fake it until I make it." During the (housing) boom everyone was upsizing their home, but Marco and I didn't, even though we really needed to because our family was growing. But we decided to stay put and find the positive in what we already had — and could comfortably afford. If you tell yourself, "I'll fake it until I make it," wealth will elude you.

Q: What if you don't make it right away, especially in today's tough economy? How do you stay motivated?

A: Staying motivated can be tough, especially since changing your situation can take years. But one study about staying motivated in academia found there are four Cs to success: commitment, confidence, a sense of control and composure. You can adopt those elements to your finances. Ask yourself, "What aspect of my motivation is under attack? Do I feel like I'm out of control?" If so, are there things you can do to get back in control: consolidate your debt, use an online tool to track your spending? If you say to yourself, "I have no control and I can't change it," you're not going to last.

Email Carolyn Bigda at yourmoney@tribune.com

Chicagoland's Mortgage Guide

CHECK RATES DAILY AT [HTTP://CHICAGOTRIBUNE.INTEREST.COM](http://CHICAGOTRIBUNE.INTEREST.COM)

Bankrate.com

Program	Rate	Points	Fees	% Down	APR
LIBERTY BANK FOR SAVINGS 888-501-4645 http://www.libertybankmortgage.com/tribune					
30 yr fixed	3.75	0.00	\$1870	20%	3.466
20 yr fixed	3.250	0.000	\$1870	20%	3.378
15 yr fixed	2.750	0.000	\$1870	20%	2.913
10 yr fixed	2.500	0.000	\$1870	20%	2.737
30 yr jumbo	3.500	0.000	\$1870	20%	3.535
7/1 jumbo ARM	2.750	0.000	\$1870	20%	2.723
5/1 jumbo ARM	2.500	0.000	\$1870	20%	2.872

Program	Rate	Points	Fees	% Down	APR
LIBERTY BANK FOR SAVINGS 888-501-4645 http://www.libertybankmortgage.com/tribune					
30 yr fixed	3.375	0.000	\$1870	20%	3.466
15 yr fixed	2.750	0.000	\$1870	20%	2.913
30 yr jumbo	3.500	0.000	\$1870	20%	3.535
5/1 jumbo ARM	2.500	0.000	\$1870	20%	2.872

Program	Rate	Points	Fees	% Down	APR
ASSOCIATED BANK 847-668-6128 michael.egleston@associatedbank.com					
30 yr fixed	3.250	0.000	\$0	20%	3.332
15 yr fixed	2.625	0.000	\$0	20%	2.734
10 yr fixed	2.625	0.000	\$0	20%	2.734
5/1 jumbo ARM	2.875	0.000	\$0	20%	2.925
10/1 jumbo ARM refi	3.590	0.000	\$0	20%	3.650
30 yr jumbo	4.250	0.000	\$0	20%	4.310
7/1 jumbo ARM	3.000	0.000	\$0	20%	3.060

Program	Rate	Points	Fees	% Down	APR
LINCOLN MORTGAGE AND FUNDING CORPORATION 773-348-8444 http://www.lincolnmgt.com					
HARP 30 yr fixed 3.99% O/O N/A 4.09% APR					
LOAN UNDER WATER?					
NO LIMIT LTV REFI IS HERE					
Condo, Single Family, 2-3-4 flat					
Owner Occupied or Investment					
Call or e-mail for the details 773-348-8444					
harp@lincolnmgt.com					

Program	Rate	Points	Fees	% Down	APR
STERLING HOME MORTGAGE 847-836-9200 http://www.sterlinghomemortgage.com					
30 yr fixed	3.250	0.000	\$699	20%	3.284
20 yr fixed	3.125	0.000	\$699	20%	3.172
15 yr fixed	2.625	0.000	\$699	20%	2.685
10 yr fixed	2.500	0.000	\$699	20%	2.588
5/1 ARM	2.625	0.000	\$699	20%	3.133

Program	Rate	Points	Fees	% Down	APR
ABI MORTGAGE 847-585-1995 http://www.abimortgage.com					
30 yr fixed	3.125	0.000	\$950	20%	3.171
10 yr fixed	2.375	0.000	\$950	20%	2.495
15 yr fixed	2.500	0.000	\$950	20%	2.582
20 yr fixed	3.000	0.000	\$950	20%	3.064
5/1 ARM	2.250	0.000	\$950	20%	2.542
30 yr jumbo	3.625	0.000	\$950	30%	3.633
5/1 jumbo ARM	2.375	0.000	\$950	20%	2.567

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Program	Rate	Points	Fees	% Down	APR
MARQUETTE BANK 708-364-2525 http://www.marquetterates.com					
30 yr fixed	3.500	0.000	\$1600	20%	3.579
30 yr FHA	3.250	0.000	\$5500	3.5%	3.770
20 yr fixed	3.375	0.000	\$1600	20%	3.485
15 yr fixed	2.750	0.000	\$1600	20%	2.889
10 yr fixed	2.750	0.000	\$1600	20%	2.953

Program	Rate	Points	Fees	% Down	APR
UNITED HOME LOANS 708-531-8388 http://www.UHLoans.com					
30 yr fixed	3.375	0.000	\$795	20%	3.414
15 yr fixed	2.625	0.000	\$795	20%	2.694
10 yr fixed	2.500	0.000	\$795	20%	2.600
5/1 ARM	2.500	0.000	\$795	20%	2.636

Program	Rate	Points	Fees	% Down	APR
AMERICAN HEARTLAND BANK AND TRUST 630-409-1598 http://www.AmericanHeartlandBank.com					
30 yr fixed	3.250	0.000	\$1093	20%	3.303
20 yr fixed	3.250	0.000	\$1093	20%	3.324
15 yr fixed	2.625	0.000	\$1052	20%	2.716
10 yr fixed	2.625	0.000	\$1052	20%	2.758
5/1 ARM	2.750	0.000	\$1060	20%	2.941
7/1 ARM	3.000	0.000	\$1077	20%	3.041
30 yr FHA	3.250	0.000	\$1105	3.5%	3.303

Program	Rate	Points	Fees	% Down	APR
FIRST SAVINGS BANK OF HEGEWISCH 800-752-8382 http://www.fsbhegewisch.com					
30 yr fixed	3.350	0.000	\$650	20%	3.382
15 yr fixed	2.700	0.000	\$602	20%	2.752
30 yr jumbo	3.700	0.000	\$1122	20%	3.721
15 yr jumbo	3.250	0.000	\$1029	20%	3.285

Program	Rate	Points	Fees	% Down	APR
PRESTIGE MORTGAGE CORP. 708-579-3333 http://www.prestigemortgages.biz					
30 yr fixed	3.250	0.000	\$900	20%	3.293
20 yr fixed	3.125	0.000	\$900	20%	3.213
15 yr fixed	2.625	0.000	\$900	20%	2.738
5/1 ARM	2.375	0.000	\$900	20%	2.724
7/1 ARM	2.500	0.000	\$900	20%	2.728
30 yr jumbo	4.125	0.000	\$750	20%	4.139
5/1 jumbo ARM refi	2.750	0.000	\$850	20%	2.824

Program	Rate	Points	Fees	% Down	APR
1ST EAGLE MORTGAGE, INC. 312-834-3006 http://www.1steaglemortgage.com					
30 yr fixed	3.250	0.000	\$929	20%	3.300
20 yr fixed	3.125	0.000	\$929	20%	3.190
15 yr fixed	2.750	0.000	\$929	20%	2.840
10 yr fixed	2.750	0.000	\$929	20%	2.880
5/1 ARM	2.500	0.000	\$929	20%	2.919
7/1 ARM	2.625	0.000	\$929	20%	2.911
30 yr FHA	3.250	0.000	\$929	3.5%	3.300

Program	Rate	Points	Fees	% Down	APR
BANK OF AMERICA 630-461-4822 nick.ostrander@bankofamerica.com					
30 yr fixed	3.500	0.000	\$0	5%	3.621
30 yr jumbo	3.750	0.000	\$0	20%	3.812
15 yr fixed	3.000	0.000	\$0	20%	3.082
5/1 jumbo ARM	2.500	0.000	\$0	20%	2.895
7/1 jumbo ARM	2.750	0.000	\$0	20%	2.941
10/1 jumbo ARM	3.125	0.000	\$0	20%	3.189

Program	Rate	Points	Fees	% Down	APR
INLAND HOME MORTGAGE 630-327-8553 http://www.chicagolandmortgage.net					
30 yr fixed	3.375	0.000	\$795	5%	3.430
15 yr fixed refi	2.750	0.000	\$795	5%	2.819
10 yr fixed refi	2.625	0.000	\$795	5%	2.725
5/1 ARM	2.625	0.000	\$795	5%	2.804
7/1 ARM	2.750	0.000	\$795	5%	2.826
30 yr FHA	3.250	0.000	\$795	3.5%	3.298
5/1 jumbo ARM	2.875	0.000	\$795	25%	2.950

Program	Rate	Points	Fees	% Down	APR
1-year adjustable mortgage trend					
30 yr fixed	3.67	2.92	2.77		
15 yr fixed	2.92	2.77	2.76		
5 yr ARM	2.77	2.76	3.04		

Program	Rate	Points	Fees	% Down	APR
15-year mortgage trend					
30 yr fixed	3.67	2.92	2.76		
15 yr fixed	2.92	2.77	2.76		
5 yr ARM	2.77	2.76	3.04		

Program	Rate	Points	Fees	% Down	APR
30-year mortgage trend					
30 yr fixed	3.67	2.92	2.76		
15 yr fixed					