

Should I Rent or Sell my Vacation Home?

Q. I have a vacation house that I'm debating about selling. I just don't get there enough, and while I can afford the expenses, it seems like I'm throwing money away. Another option is renting it out seasonally. How can I decide what to do?

— Unsure

A. Before we talk about selling, let's look at the rental option.

Owning a vacation home that doesn't get enough use can certainly be frustrating and may seem like a waste of your hard earned dollars. If you can turn it into a rental, you might be able to have the best of both worlds, said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**. You will still have the opportunity to enjoy the home but the rental income will offset the costs that come from owning it. Before moving forward with your decision, Mott said you should meet with your tax advisor to consider the options and limitations related to the expenses you can claim and whether you need to report the rental income. You should also meet with a local realtor to get an understanding of the rental market in the area where your second home is located, Mott said. This will help you determine the right rental price and what the demand for a home like yours might be.

From a tax perspective, the number of days you use the property each year has a bearing on what the IRS will allow you to claim on Schedule E: Supplemental Income and Loss, Mott said. "The IRS will not consider your vacation home a rental if you use it more than 14 days per year or more than 10 percent of the days you rent it, whichever is greater," Mott said. "Expenses for the vacation home will need to be prorated based on the time it is occupied for personal use and as a rental." You can find the details on the types of expenses that can be used as deductions in IRS Publication 527: Residential Rental Property.

It is important to recognize that you usually cannot claim a loss on your vacation property if the expenses exceed the rental income, Mott said. You also have to make some decisions about managing the rental process and the property.

"A local real estate company can work with potential renters for a fee or you may wish to list the property on a website where you deal directly with those interested in your home," Mott said. "If you feel that you won't have the time to respond to the inquiries about your home, using a rental agent might make more sense."

You'll also want to think about whether you want to manage the property yourself or have a local company do it for you.

"When the air conditioner breaks in the heat of the summer or the plumbing backs up, tenants will want it repaired immediately," Mott said. "Using a local property manager can save you both time and headaches as the primary contact for your renters."

Individuals and real estate companies that provide these services can also oversee the cleaning companies that need to get the property ready for the next tenant, inspect the property for damage and schedule minor repairs, she said.

If you instead decide to sell the home, keep in mind that you will be subject to capital gains tax on the sale of the property, said Marnie Aznar, a certified financial planner with Aznar Financial in Morris Plains.

"The tax will be calculated on the capital gain incurred upon sale," she said. "The capital gain will be the difference between the net proceeds you receive from the sale of the property — after commission — and the adjusted cost basis of the property."

Aznar said if you think that there is reasonably good potential for capital appreciation of the property that will exceed the annual costs by at least as much as you would get as an annual return if you invested the net proceeds in a well-diversified portfolio, it may be worth it to you to keep the property.

"If you do not think that the property will appreciate at this level, it may be a good decision to sell the property, pay the taxes and invest the proceeds in a well-diversified portfolio," Aznar said. "Not only will the money be working for you but you will no longer have the responsibilities and expenses involved with maintaining a second home."

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