

# How to Make Money in Real Estate Investing

## **Lowers Your Taxes**

Tax incentives for real estate investors can often make the difference in your tax rates. Deductions for rental properties can often be used to offset wage income. Tax breaks can often enable investors to turn a loss into profit.

For which items can investors get tax breaks? You could claim deductions for actual costs to incur for financing, managing and operating the rental property. This includes mortgage interest payments, real estate taxes, insurance, maintenance, repairs, property management fees, travel, advertising, and utilities (assuming the tenant doesn't pay them). These expenses can be subtracted from your adjusted gross income when determining your personal income taxes. Of course, these deductions cannot exceed the amount of real estate income you receive. In addition to deductions for operating costs, you can also receive breaks for depreciation. Buildings naturally deteriorate over time, and these "losses" can be deducted regardless of the actual market value of the property. Because depreciation is a non-cash expense, you are not actually spending any money to get the deduction. For more information about depreciation and various tax alternatives, ask your tax advisor about Section 1031 of the U.S. Tax Code.

## **Give You a Positive Cash Flow**

There are two kinds of positive cash flows: pre-tax and after-tax. A pre-tax positive cash flow occurs when income received is greater than expenses incurred. The sort of situation is difficult to find, but they are the strongest and safest investments. An after-tax positive cash flow may have expenses that outweigh collected income, but various tax breaks allow for a positive cash flow.

Regardless of what kind of real estate you choose to invest in, timely collection from your tenants is absolutely necessary. A positive cash flow, whether it's pre-tax or after-tax, requires rental income. Be sure to find quality tenants. A thorough credit and employment check is very important.

## **You Can Use Leverage**

One of the most important factors in determining a solid investment is the amount of equity you are purchasing. Equity is the difference between the actual worth of the property and the balance owed on the mortgage.

## **You Benefit from Growing Equity**

While investing in real estate is relatively complex, it is often worth the extra work. When compared to other financial investments, like bonds or CD's, the return on investment for real estate purchases can often be greater.

The key to real estate investing is equity. Determine an amount of equity that you want to achieve. When you reach your goal, you may want to sell, re-finance, or pull the equity out with a 2<sup>nd</sup> mortgage or line of credit, so that the equity can be used in another real estate investment to make even more money!

**Real Estate Investing can be a very Complex Process. Feel free to call or email me with any questions you may have.**