## Real Estate Investing Guide: The Difference Between Income Tax And Property Tax

Just like in any other business, real estate investing would require you to pay different kinds of taxes. Two of which are income tax and property tax. To know the twists and turns of real estate investing, you should know what these taxes are, when do you pay them and their difference.

Income Tax

As the name suggests, income tax is tax that is deducted from your income. It is charged on the financial income of people, corporations or further legal entities. There are different systems of this kind of tax coupled with different degrees of incidence. Charging this kind of tax can be proportional, progressive or regressive.

When tax is imposed on incomes of companies, then this may be called corporate tax, profit tax, or corporate income tax. Tax from the earnings of an individual is usually charged from his total income. But in the case of corporations, the tax is usually charged from the net income of the corporation.

In terms of real estate investing, income tax comes in when you are profiting or having income from your property. For example, you have invested in a piece of land and leased it, then you would have to pay income tax from the income you get from your rentals.

This includes your gross income or all amounts that you received as rent. Rental income is considered to be any payment that you received for the use or the occupation of your property.
However, the positive side effect of charging income tax in real estate investing is that you can deduct different expenses of renting property from your total rental income. Generally, the rule is that you deduct your rental expenses during the year in which you pay them.

Expenses that you can deduct include advertising, cleaning and maintenance, utilities, insurance, taxes, interest points, commissions, tax return preparation fees, travel expenses, rental payments and expenses on local transportation.

If you are a taxpayer under cash basis, you usually report your rental income on your return in the same year that you constructively or actually received it. You fall under this category if you report income the same year that you receive it, despite the month you earned it.

Property Tax

In real estate investing, you also pay property tax. This is also known as millage tax. Property tax is said to be an ad-valorem tax, where a property owner pays depending on the value of the property being charged.

There are basically three different kinds of property. First is land, then your improvements to the land, such as buildings; and last but not the least, personality like manmade objects that are movable.

Real property, real estate and realty are all terms used to pertain to the combination of improvements and land. In real estate investing, the taxing authority usually requires or does an appraisal of the property's monetary value, and then tax is assessed in ratio to the value.
If you really want to get into real estate investing, then you should know what form of property tax that is used in the municipality you are investing in.

One common mistake that real estate investors make is their confusion between special assessment and property tax. These are actually two different forms of taxation. One is an ad-valorem tax, which highly relies on the property's fair market value for justification, while the other highly depends on a special enhancement that is called a benefit for its justification.

In real estate investing, the rate of your property tax usually comes in percentage form. To calculate your property tax, you multiply the assessed value of your property with the mill rate and then divide them by one thousand.

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