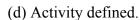
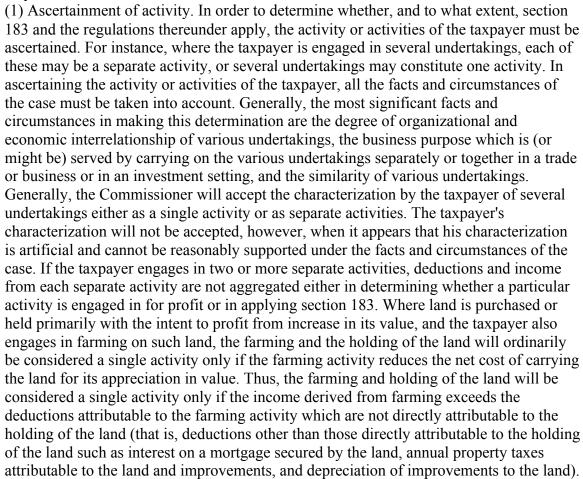


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Reg. Section 1.183-1(d)(1) Activities not engaged in for profit

. . .





(2)Rules for allocation of expenses. If the taxpayer is engaged in more than one activity, an item of deduction or income may be allocated between two or more of these activities. Where property is used in several activities, and one or more of such activities is determined not to be engaged in for profit, deductions relating to such property must be allocated between the various activities on a reasonable and consistently applied basis.

(3)Example. The provisions of this paragraph may be illustrated by the following example: Example.

- (i) A, an individual, owns a small house located near the beach in a resort community. Visitors come to the area for recreational purposes during only 3 months of the year. During the remaining 9 months of the year houses such as A's are not rented. Customarily, A arranges that the house will be leased for 2 months of 3-month recreational season to vacationers and reserves the house for his own vacation during the remaining month of the recreational season. In 1971, A leases the house for 2 months for \$1,000 per month and actually uses the house for his own vacation during the other months of the recreational season. For 1971, the expenses attributable to the house are \$1,200 interest, \$600 real estate taxes, \$600 maintenance, \$300 utilities, and \$1,200 which would have been allowed as depreciation had the activity been engaged in for profit. Under these facts and circumstances, A is engaged in a single activity, holding the beach house primarily for personal purposes, which is an "activity not engaged in for profit" within the meaning of section 183(c). See paragraph (b)(9) of §1.183-2.
- (ii) Since the \$1,200 of interest and the \$600 of real estate taxes are specifically allowable as deductions under sections 163 and 164(a) without regard to whether the beach house activity is engaged in for profit, no allocation of these expenses between the uses of the beach house is necessary. However, since section 262 specifically disallows personal, living, and family expenses as deductions, the maintenance and utilities expenses and the depreciation from the activity must be allocated between the rental use and the personal use of the beach house. Under the particular facts and circumstances, ½ (2 months of rental use over 3 months of total use) of each of these expenses are allocated to the rental use, and ½ (1 month of personal use over 3 months of total use) of each of these expenses are allocated to the personal use as follows:

Rental use²/₃-expenses allocable to section 183(b)(2)Personal use¹/₃-expenses allocable to section 262

Maintenance expense \$600 \$400 \$200

Utilities expense \$300200 100 Depreciation \$1,200 800 400

Total 1,400 700

The \$700 of expenses and depreciation allocated to the personal use of the beach house are disallowed as a deduction under section 262. In addition, the allowability of each of the expenses and the depreciation allocated to section 183(b)(2) is determined under paragraph (b)(1)(ii) and (iii) of this section. Thus, the maximum amount allowable as a deduction under section 183(b)(2) is \$200 (\$2,000 gross income from activity, less \$1,800 deductions under section 183(b)(1)). Since the amounts described in section 183(b)(2) (\$1,400) exceed the maximum amount allowable (\$200), and since the amounts described in paragraph (b)(1)(ii) of this section (\$600) exceed such maximum amount allowable (\$200), none of the depreciation (an amount described in paragraph (b)(1)(iii) of this section) is allowable as a deduction.