

# Village View

COROLLA TO NAGS HEAD TO COLUMBIA

WINTER 2019/2020

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*The good, the bad, and the downright ugly of...*

## The Internal Revenue Code

Each year tens of thousands of families flock to the Outer Banks for a week of sun and sand, long days and warm water. While owning a vacation home is a dream come true for many people, few people are aware of the tax benefits and pitfalls related to rental property ownership. In this, the first in a two-part series of articles related to the taxation of rental property, we will explore the good, the bad, and the downright ugly of the Internal Revenue Code, and how to maximize the good.

To say that the taxation of rental property is complex is an extreme understatement. Personal use, extent of participation, grouping elections, and special deductions, are but some of the terms of which the savvy real estate investor will need to become conversant. The first step in navigating these waters

is determining the extent of the owner's use of the property.

### Personal Use of Vacation Homes

In response to concerns that personal motives rather than profit predominates the rental of vacation

homes, Congress in 1976 enacted Internal Revenue Code section 280A. By this enactment, Congress sought to limit the deductibility of vacation home expenses when a vacation home is used for both rental and personal purposes. If there is too much personal use of the vacation home during the year, then the expenses associated

with the activity must be allocated between personal and rental use.

### Vacation Rental Property Used as a Home

The tax treatment of rental property expenses depends on whether the taxpayer also used the property as



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(continued on next panel)

# The Internal Revenue Code (continued from previous panel)

a home during the year. A vacation rental property is considered a home of the taxpayer if the property is used for personal purposes during the year for more than the greater of 1) 14 days or 2) 10% of the total number of days the property was rented at fair value. Count family members and friends that you let use the property, as well as charitable donation of use of the property, as days of personal use. Do not count days used primarily for repairs and maintenance as personal use.

## Di Minimis Rental Use

Now for some good news. If you rent any dwelling unit that you also use as a home for less than 15 days during the year, it's not considered income under the tax code. The dollar amount

is irrelevant; you aren't required to report the income on your tax return. Certain expenses, like mortgage interest, real estate taxes, and casualty losses may be deductible as itemized deductions.

## Limit on Deductions

Renting vacation property that is also used a home of the taxpayer isn't a passive activity under the tax law. Instead, you must first allocate your expenses between rental and personal use. Expenses allocated to personal use are generally not deductible. In addition, rental expenses in excess of your rental income can't be used to offset income from other sources. The special deduction for active participation does not apply in this case.

In light of the rules for using a vacation rental property as a home, owners should keep careful records of their personal use throughout the year. Avoiding the home designation will ultimately result in increased rental deductions and therefore the greatest tax benefits.

*Parts one and two of this article will appear on our blog:*

[www.villagerealtyobx.com/blog](http://www.villagerealtyobx.com/blog)

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# Outer Banks real estate market update

Data obtained from OBAR MLS through January 2020

- Residential units sold: 2141, +9% change over Q4 2018
- Residential sales volume: \$861M, +8%
- Residential average days on market: 115, down 11 days
- Residential average sales price: \$402,175, -1%
- Vacant land units sold: 433, Even
- Vacant land sales volume: \$51.9M, -10%
- Vacant land average days on market: 223 days, down 19 days
- Vacant land average sale price: \$120,046, -10%

2019 4th Quarter Residential Unit Sales by Town		
Area	Units Sold	Change over Q4 2018:
Corolla	245	+ 7%
Duck	121	- 5%
Southern Shores	108	+10%
Kitty Hawk	133	+15%
Kill Devil Hills	334	+ 6%
Nags Head	223	+ 8%
Roanoke Island	125	- 5%
Hatteras Island	268	+ 5%

- **Village Realty is #1 in the Village at Nags Head** for Listings Sold at 33% (14) of total sales (42 transactions). The #2 firm had 4 Listings Sold;
- **Village Realty is #1 in Buyer Representation** with 19% (8 transactions) of total sales;
- **Village Realty is #1 in all of Nags Head** for:
  - Listings Sold at 17% (38 transactions)
  - Buyer Representation at 17% (37 transactions)



## Just a Sampling of Our Listings for Sale



### Corolla, Ocean Sands

Short walk to beach, well maintained, game-room, beautiful pool, screen porch, cul-de-sac  
4 BR, 3 BA • \$349,000 • MLS 96482



### Nags Head Oceanfront Co-Ownership

Own 5 weeks in beautiful 2,314 sf oceanfront, private beach access, tastefully furnished  
4 BR, 3 BA • \$55,000 • MLS 107670



### The Village at Nags Head

Exceptional: location, condition, ocean view & rental income. Pool, hot tub, almost 10% ROI  
6 BR, 4.5 BA • \$739,000 • MLS 105293



### KDH, First Flight Retreat Condo

Oceanfront, well-appointed furnishings, heated pool, spa, fitness ctr & gameroom  
1 BR, 1 BA • \$375,000 • MLS 107275



### Kill Devil Hills Oceanfront

Big, beautiful 6,500 sf, furnished, large pool, media rm, 2 gamerooms, >\$207K booked 2020  
14 BR, 12 BA, 2 PB • \$2,240,000 • MLS 107469



### Nags Head Oceanfront

Ocean & sound views, near Jennette's Pier, well appointed, game room, pool, amazing income  
7 BR, 6 BA • \$1,299,000 • MLS 104169



### Nags Head, Villas Condo

Sound & Jockey's Ridge views, 1,564 sf, recent updates, private patio, many comm. amenities  
3 BR, 2.5 BA • \$299,500 • MLS 107066



### Corolla, Ocean Sands Condo

Short walk to ocean, well-kept & freshly painted, sun deck, comm. pool, storage area  
2 BR, 2 BA • \$210,900 • MLS 107351



### The Currituck Club

Immaculate 2,212 sf, not currently a rental, reverse floor plan, pool, sold furnished  
4 BR, 3.5 BA • \$399,900 • MLS 106775



### Manteo, Cameron House Inn

Gorgeous, historic Arts & Crafts bungalow, 3,088 sf, renovated, huge yard w/pecan trees  
5 BR, 5.5 BA • \$690,000 • MLS 106187



### KDH, Colington Pointe

New construction, last model built, upgraded larger Captains Cottage, dry entry, 9' ceilings  
3 BR, 2.5 BA • \$315,900 • MLS 101769



### S. Nags Head Oceanfront

Private boardwalk to beach, 3,034 sf, pool, hot tub, new kitchen, loft w/fantastic ocean views  
6 BR, 6 BA • \$940,000 • MLS 106670



## Just a Sampling of Our Listings for Sale



### Manteo, Shallowbag Bay Club Condo

Sound views, south-facing top floor unit, 1,380 sf, bright, airy, open concept, private decks  
3 BR, 2.5 BA • \$327,500 • MLS 106712



### The Village at Nags Head

Exceptionally well maintained 1,768 sf, turnkey, move-in ready, updated kitchen, fireplace, hot tub  
4 BR, 2.5 BA • \$379,900 • MLS 106417



### KDH, Croatan Shores

Well maintained, 1,516 sf, 2 blocks from sound, dry entry, 3/4 fenced yard, new HVAC & septic  
4 BR, 2.5 BA • \$302,500 • MLS 106483



### The Village at Nags Head

Golf & sound views, 1,744 sf, new: roof, paint, windows, flooring, appliances, nicely decorated  
4 BR, 2 BA, 2 PB • \$419,000 • MLS 107056



### S. Nags Head Oceanfront Condo

First floor, spacious 1,609 sf, strong dune, patio, pool, beach boardwalk, 2<sup>nd</sup> home in great shape  
3 BR, 2 BA • \$425,000 • MLS 107522



### S. Nags Head, Campbell's Beach

Classic beach cottage, 2 lots from ocean, block foundation w/bonus space, garage, close to pier  
3 BR, 2 BA • \$315,000 • MLS 107104



### S. Nags Head, Goose Wing

Ocean & sound views, spectacular & turnkey, new roof, HVACs, paint, renovated kitchen  
4 BR, 3.5 BA • \$499,000 • MLS 107864



### Roanoke Island, Colony on Roanoke

Elegant, open concept w/dream kitchen, 3,082 sf, very private on hilltop, landscaped w/garden  
4 BR, 2.5 BA • \$495,000 • MLS 105698



### KDH, Colington Island

Quiet wooded cul-de-sac, 1,760 sf w/a 1,080 sf guest house, entire 2<sup>nd</sup> fl is master suite  
3 BR, 3.5 BA • \$330,000 • MLS 107061



### KDH, Colington Pointe

Bright, airy end unit, 1,322 sf, dry entry, wood plank tile flooring, stainless steel appl & granite  
3 BR, 3 BA • \$259,000 • MLS 107963



### Nags Head Oceanfront

Amazing views, 6,200 sf, elevator, theater rm, pool, exercise rm, \$270K rents, sister house listed  
11 BR, 10 BA, 2 PB • \$2,399,000 • MLS 104141



### Nags Head Oceanfront

Beautifully furnished & maintained, 5,000 sf, panoramic views, excellent rental revenue  
8 BR, 9.5 BA • \$1,845,000 • MLS 104579