

Tax Deductibility of Co-op Expenses

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Chris asks:

We are in the 15% bracket and own a co-op for which we pay \$1,400 a month maintenance or \$16,000 a year, of which 45% is tax deductible. My wife does our taxes and she informed me that last year we could not use it because we did not have enough deductions to fill in the long form. Is there any way we could use it?

My reply:

Taxpayers who own their homes, and itemize their deductions, are generally allowed to deduct their mortgage interest and real estate taxes that they pay for themselves. Most taxpayers are not allowed to deduct expenditures that others pay for them. However, Internal Revenue Code section 216, allows shareholders to deduct a portion of their maintenance charges from their taxable income.

The shareholders in a co-op are usually tenants in the co-op; thus, their maintenance charges is essentially rent paid to the co-op. Maintenance charges usually include all costs associated with running the building, such as real estate taxes, mortgage interest, utilities, insurance, etc. Some of these expenses are not tax deductible. You are informed of the percentage of the maintenance charges that are tax deductible each year. In order for you to claim this deduction you would have to itemize your deductions on your tax return.

If you were unable to "use the long form", then you did not report more itemized deductions than your standard deduction. The first thing you should do is see if you (or your wife) overlooked other expenditures that are tax deductible such as state income (or sales tax) and personal property taxes, the interest on the debt you incurred to purchase your co-op shares, equity loan interest taken out on your co-op shares and charitable contributions. Harder to qualify for, but also includible, are allowable medical expenses, casualty losses, and various miscellaneous deductions. If you think something may be deductible, but you are not sure you should ask a qualified tax professional.

The important thing to keep in mind is that your tax deduction is only a portion of every dollar that you spend. Because of this it is never wise to base your spending, business or investment decisions solely on tax consequences. The value of every tax deduction depends largely your income -- the more income you have, the more valuable the tax deduction.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.