

**- INTERNAL REVENUE SERVICE -  
- PREPAID ADVANCE RENT -**

- Please also view IRS Topic Number 414 Rental Income and Expenses -

Prepaid advance rents can be a very confusing aspect of the 1099 process. The IRS website states, “Advanced payments received under a lease that does not put any restriction on their use or enjoyment are income in the year you receive them. This is true no matter what accounting method or period you use.”

This also confuses some owners as they did not get an owner draw for the funds in that tax year. However, the IRS calls these funds a Constructive receipt which the IRS website describes as, “...when an amount is credited to your account or made available to you without restriction. You need not have possession of it. If you authorize someone to be your agent and receive income for you, you are considered to have received it when your agent receives it.”.

Our Appfolio accounting system calculates your 1099 by taking your gross income for the year then applying the net change in prepaid advanced rents (either + or -). Please understand we are Property Managers not Certified Public Accountants. For more specific detailed information we recommend you consult a CPA who specializes in rental properties. We would be happy to send them your income statements for analysis and review.