

**- IRS PREPAID ADVANCE RENT -
- PREPAID RENT LIABILITY -**

*** Please also view IRS Topic No. 414 Rental Income and Expenses ***

Prepaid advance rent can be a very confusing aspect of the 1099 process. The IRS 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 receive an owner draw for the funds in that tax year. However, the IRS calls these funds a **“Constructive Receipt”** which the IRS 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.”**

The Appfolio accounting system automatically calculates your 1099 by taking your gross income for the year then applying the net change in prepaid advanced rent (either + or -). This is called **“Prepaid Rent Liability”** on your Appfolio reports. **For help involving prepaid advanced rent please consult a CPA who is knowledgeable in rental property income. We are happy to send your end of year financial reports to your accountant. We cannot legally provide assistance with the advanced accounting comprehension of prepaid advanced rent, only a licensed CPA can assist you with the breakdown of that information.**