

Qualified Joint Venture

If you and your spouse operate a rental business together, you can choose to be treated as a qualified joint venture instead of a partnership if you both materially participate in the business. Material participation in a rental business requires that each of you meets one of these tests:

1. Participated in the business for more than 500 hours during the year—about 10 hours a week.
2. Performed substantially all of the work in this business during the year. For example, if your business is consulting and you have no employees, you materially participated no matter how many hours you worked.
3. Participated in the business for at least 100 hours during the year, and no one else participated in the business for more hours than you did during the year.
4. All of these criteria apply:
 1. Participated in this business for more than 100 hours during the year.
 2. Participated in other businesses for more than 100 hours each during the year.
 3. Total participation in all such businesses (including this one) exceeded 500 hours.
 4. Wouldn't be treated as having materially participated in any of these businesses under any of the other tests.
5. All of these criteria apply:
 1. Based on all the facts and circumstances, participated in the business on a regular, continuous, and substantial basis.
 2. Participation exceeded 100 hours.
 3. No one was paid to manage the business.
 4. No one else spent more hours managing the business.
6. Met any other test of material participation for any five of the past ten years.

If this is a qualified joint venture, you must divide all items of income, gain, loss, deduction, and credit attributable to the rental real estate business between you and your spouse in accordance with your respective interests in the venture. Each of you must report your interest as separate properties.

For more information, see the IRS instructions to Schedule E.