1031 Capital Solutions

DST Year-End Tax Statement FAQs

Why doesn't the net income on my year-end statement match my actual distributions received?

There are four reasons that explain most differences between taxable income and received distributions:

1. **Calendar**. Distributions are paid in the month or quarter following the period they were earned. For example, net income earned in December is paid in January. In your first year of ownership, it is typical to be taxed on income that is roughly one month (or quarter) more than the amount you received within that calendar year.

2. **Reserve payments/Capital expenditures**. In most DSTs, some amount of revenues is placed annually in reserves. This represents net income that was not distributed; unspent reserves are returned to investors when the property is sold. Similarly, DSTs often will need to make capital expenditures such as roof replacements or HVAC equipment. These costs are not deducted in the year incurred and also represent funds from net income that was not distributed.

3. **Loan Amortization**. If the DST loan has entered the amortization phase, some portion of the monthly debt service will apply to principal reduction. Like reserve contributions, principal payments are not a deductible expense and represent net income that was not distributed.

4. **Return of Capital.** Some DSTs may supplement their distributions with reserves or rebated fees. These items may cause the total annual distributions to exceed net income.

How do I account for capital expenditures noted in my year-end statement?

Unlike operating expenses that are reported on lines 5–18 of your Schedule E, capital expenditures (e.g., roof replacements, new HVAC equipment, structural additions) are reported on Form 4562. Your prorated share of a DST's capital expenditures is likely to be relatively small, but accurate accounting requires that you record/report any new capital asset and track its depreciation annually on your Schedule E.

How do I calculate my depreciation deduction for my DST investment?

When you invest in a DST as part of 1031 exchange, your depreciable basis is unique to you. The DST sponsor cannot calculate your personal depreciation deduction for you. Your DST depreciation schedule is based on the history of your relinquished property combined with information about the new DST property. For a more detailed discussion, please see our Cost Basis Explanation: https://1031capitalsolutions.com/wp-content/uploads/2024/06/CostBasisExplanation.pdf

I own interests in DSTs from multiple sponsors, and each year-end statement has a different title. Why?

DST sponsors use different names for the year-end statement, including "Substitute 1099", "Year End Tax Information" and "Annual Tax Statement", among others. Despite the logos and fancy format, your statement is simply communicating your fractional interest in the revenues, expenses, reserves and capital expenditures of a property or portfolio of properties. This information is reported on the same Schedule E you use to report the activities of a traditional rental property. Because there is no official IRS title for this report (unlike "1099-DIV" or "Schedule K-1"), DST sponsors were left to make up their own names.

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