7 Critical Tax Mistakes Real Estate Agents Make

That Cost Them $10,000's Every Year!

Meet Jim. Jim is a successful real estate agent, but the last thing Jim wants to deal with is taxes!!

A publication by:

hallergroup
Tax and Accounting

Table of Contents

hallergroup

Tax and Accounting

Introduction

What Jim did not realize was that because he did not work with the right tax professionals, he has been paying tens-of-thousands more to the IRS than what was legally required. Does this story sound familiar to you? Jim soon realized that real estate agents have a lot of planning opportunities and even some other tax savings benefits that most other tax payers do not have. I have listed out 7 critical tax mistakes we see most real estate agents make and Jim made every one of them!

Jim missed out on literally tens-of-thousands worth of deductions simply because he was not keeping good records and he did not work with someone that specializes in knowing and understanding the real estate industry. With the 7 new strategies we put in place for Jim, we were able to lower his tax bill to the IRS by $22,849. If you are interested in seeing how we can help you create a plan specifically tailored to your needs, please call us at: (480) 396-9940.

01

Most agents report their income in the worst way possible.

Over 75% of real estate agents report their income in the worst way possible. Like most agents, Jim was reporting his income for tax purposes (as a sole proprietor). After we changed his tax structure to an S corporation, he saw dramatic payroll tax savings of $9,823.

02

Most agents are not maximizing auto expenses.

Most real estate agents simply take the standard mileage deduction for the miles they put on their car. Some agents lease their cars and others purchase large SUV's and depreciate the vehicles using the actual expense method. Confused yet? Let's keep it simple. Which method to use? Well, it depends on your individual situation, but here is a freebie: If your car is relatively NEW, it probably makes more sense to use the actual expense method; writing off automobile expenses you incur during the year (to the extent your vehicle is used for business), as well as depreciating the business use portion of your car. If your car is OLDER, it may make more sense to simply use the standard mileage method, especially since the mileage rate for 2019 is $.58 per mile! We did some calculations and determined that taking the standard mileage deduction over the next three years would earn Jim a year-to-year tax savings benefit of about $561 on average. Every agent's case is vastly different. As every agents case is vastly different, it really takes an analysis of each method to know which will result in the greatest deduction.

03

Most agents are not maximizing their home office deduction.

*I*f you use a part of your home or apartment exclusively and regularly for the administration and/or management of your business, you are entitled to the home office deduction! If you document the use of your home office correctly, you can deduct a portion of your rent (if you rent), your mortgage interest (if you own), utilities, repair bills, insurance and more (ask me for many other eligible deductions)! Oh yeah, and you can even take a depreciation deduction on a portion of your home (if you own)! Do not mess this up! Our strategies alone for Jim saved him an additional $1,472 per year in taxes.

04

Most agents are not keeping good records of their expenses.

*I*nvest in a good bookkeeper/bookkeeping system. For newer agents, “a good bookkeeping system” may be as simple as an Excel spreadsheet, or it could be investing in decently priced bookkeeping software. It could also mean having someone prepare your books for you (hint, hint). If your tax professional prepares your books every month they can be proactive in finding more tax planning opportunities to ensure you are paying the minimum amount of tax possible. Jim hired us to do his bookkeeping for him and, in doing so, we found an additional $7,422 in legitimate business deductions for him! This saved him a total of $1,636 in federal and state taxes. Not only did we save him money, but he no longer worries about doing his own bookkeeping! Headache solved!

05

Most agents are not taking advantage of having their business rent their personal residence.

*I*f you operate your business as an S corporation, your business can legally rent your home from you for a total of 14-days or less. The rent would be an expense to your business, and tax-free income to you! The tax benefits for doing this are pretty awesome! It probably sounds too good to be true, but it is not! After Jim picked his jaw up off the floor, we implemented this plan for his tax savings was $3,113 for the year.

06

Most agents are not stashing away money in tax-favored accounts.

*F*rom a tax perspective, one of the greatest parts of being a small business owner is the retirement account options available to you. Unfortunately, most real estate agents who come to me typically just have two retirement accounts, if any. I mean, that is a good start. However, as a business owner, there is so much more you can do. Jim had precisely what I outlined above, yet he was not contributing to any plan. Without going into detail on all of the plans, we worked with Jim to set up a Solo401(k) so he could start putting money away for retirement in a more expeditious manner. Instead of paying the IRS so much money, he paid himself $18,500 into his 401(k) and he saved $4,070 in taxes.

07

Investing in rental real estate and taking passive losses against your commission income.

Yes, it is true. If you meet the requirements set forth by the IRS to be considered a real estate professional (and as a real estate agent you do), you could potentially take advantage of unlimited rental losses to offset the taxation of your real estate sales income! Jim owns several rental properties but his previous tax professional was not allocating them correctly and listing Jim as a real estate professional. Jim's income was so high, causing his rental real estate losses to be carried forward instead of being applied in the current year. With those issues solved Jim saved $2,174.

hallergroup

Tax and Accounting

www.HallerGroupAZ.com

Mike Haller

Haller Group, PLC
1001 E Warner Road
Suite 102
Tempe, AZ 85284

480.396.9940, phone