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Tax Tips for Real Estate Agents

September 19, 2023

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Employee vs. independent contractor

- Employee
 - Employer withholds income and payroll taxes (SSA; Medicare)
 - Payroll taxes paid by both employer and employee
 - Receive Form W-2
- Independent contractor
 - No withholding
 - Payroll taxes ultimately paid by independent contractor
 - Receive Form 1099-NEC



Employee vs. independent contractor (continued)

- Payroll taxes
 - Typically 15.3% of individual's earnings
 - As employee, split 50-50 between employer and employee
 - As independent contractor, paid entirely by contractor
- Income taxes
 - As employee, federal and state withholding occurs throughout year
 - As independent contractor, you are responsible for making quarterly estimated tax payments
 - Penalties and interest may apply if you don't make timely payments



Business income

- Form 1099-NEC
 - Issued to independent contractor from any company or brokerage that paid you at least \$600 during the calendar year
- Income is taxed in year received (cash-basis taxpayer)
- File federal Schedule C
- You may be required to file in any states in which you earn income in



Business expenses

- Expenses must be **ordinary** and **necessary** in carrying out your business activities
- Expenses are deductible in year paid (cash-basis taxpayer)
 - Exception: expenses paid on credit card are deductible when charged, not when credit card is paid off



Business expenses

- Business use of a vehicle – required documentation
 - Date vehicle purchased
 - Origin and destination of travel
 - Business purpose for travel
 - Number of business miles
 - Record of odometer readings as of January 1st or December 31st



Business expenses

- Two methods to deduct vehicle expenses
 - If you choose Method 2 in first year, you may only use Method 2 for that vehicle moving forward
 - Method 1: standard mileage rate
 - Business miles driven multiplied by IRS-prescribed mileage rate
 - Current 2023 rate is 65.5 cents per mile
 - Auto loan interest, parking, tolls may also be deducted



Business expenses

- Method 2: actual cost method
 - Actual costs of vehicle ownership allocated to business use
 - Calculate business use percentage (business miles divided by total miles)
 - Multiply percentage by total of expenses:
 - Gas
 - Oil
 - Tires
 - Repairs
 - Insurance
 - Depreciation – limits depending on make and model of vehicle



Business expenses

- Meals
 - Typically 50% deductible after 2022
- Entertainment
 - Not deductible
 - Activity generally considered amusement, recreation or sport
 - Concert tickets, sporting events, country club dues, etc.



Business expenses

- You are responsible for substantiating the deduction
- Maintain the following records for each business meal:
 - Date and place of the meal (receipt)
 - Amount of meal (receipt)
 - Business purpose (good practice to write on receipt)
 - Who was in attendance (good practice to write on receipt)



Business expenses

- Expenses for transportation, meals, and lodging are deductible, if traveling away from home
- Majority of time spent needs to be business-related
- Keep all receipts and documentation, similar to meal requirements



Business expenses

- IRS deduction limited to \$25 per recipient, per year
- Incidental costs (engraving, packaging, mailing, etc.) typically do not count towards limit



Business expenses

- Accountants, attorneys, and other professionals
 - Deductible if ordinary and necessary
 - Accountant fees specific to preparation of Schedule C are deductible on Schedule C



Business expenses

- To qualify,
 - Portion of home must be used regularly and exclusively as the principal place of business
 - Regular use: area used for business on a continuing basis
 - Exclusive use: specific part of home used for business purposes only
- Two methods to receive deduction



Business expenses

- Simplified method
 - \$5/square foot (max. deduction of \$1,500 or 300 square feet)
- Regular method
 - Aggregate direct and indirect costs
 - Direct costs fully deductible
 - Indirect costs allocated between business and personal based on square footage
 - Real estate taxes, utilities, insurance, mortgage interest, etc.



Business expenses

- Out-of-pocket health insurance premiums
 - Deductible if self-employed
 - Insurance may cover business owner, spouse, and dependents
 - Can also include long-term care insurance premiums



Business expenses

- Deductible business insurance premiums may include:
 - Fire, theft, flood, or other casualty
 - Credit insurance to cover unpaid debts
 - Overhead insurance (covers overhead costs when owner is sick or disabled)
 - Liability or malpractice insurance
 - Workers compensation insurance
 - Disability and owner life insurance premiums generally not deductible



Business expenses

- Office expenses
 - Office supplies (paper, print cartridges, etc.)
 - Postage
 - Advertising and marketing
 - Realtor dues



Business expenses

- Rent or lease expense
 - Any business-related vehicle, building or equipment rental
- Taxes
 - Payroll taxes, if you have employees
 - Real estate and personal property taxes on business assets



Retirement plan contributions

- Simplified Employee Pension or “SEP”
 - Available to anyone with self-employment income
 - Maximum contribution is 25% of net self-employment income
 - Maximum contribution in 2022: \$61,000
 - Maximum contribution in 2023: \$66,000
 - Deadline to establish plan and/or make contributions:
 - Due date of return, including extensions



Retirement plan contributions

- Solo 401(k) Plan
 - Make “employee” annual salary deferrals up to \$22,500 for 2023
 - Deadline is 12/31
 - Make “employer” contributions (up 25% of self-employment income)
 - Deadline is due date of return
 - Total combined employee and employer contributions capped at \$66,000 for 2023
 - Limits higher if age 50 or older
 - Plan must be set up by end of year



Retirement plan contributions

- SIMPLE IRA plan
 - Participants may defer up to \$15,500 for 2023
 - Limits higher if age 50 or older
 - The employer must contribute either:
 - Dollar for dollar match up to 3% of self-employment earnings, or
 - 2% of self-employment earnings up to \$330,000 in 2023
 - Plan must be established by October 1st
 - Simple IRA contributions due by the due date of the tax return, including extensions



Final thoughts

- Keep good records
 - Bank statements, receipts, and other documentation
 - Use a spreadsheet or program to help track, categorize, and summarize your data
 - Better records = lower professional fees
 - Software apps can help track business and personal mileage
- Separate bank account
- Consult a tax advisor sooner than later



Thank You!

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