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Tax Summit 2021



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Presenter: Michael Westwick

**CPA, Director of Finance and
Senior Tax Manager**



**Stitely &
Karstetter, PLLC**

Public Accountants & Business Advisors

Real Estate Agents Tax Guide 101

By Michael Westwick, CPA



Speaker Bio

- ▶ Certified Public Accountant with Stitely & Karstetter
 - ▶ Expert in Individual and business Taxation
- ▶ Director of Wealth Management
 - ▶ Expert in retirement strategies, investments, and retirement accounts



What Will We Be Discussing?

▶ Basic

- ▶ Save your Expenses
- ▶ What Can I write off?
- ▶ Home Office
- ▶ Miles / Car
- ▶ Quarterly Taxes
- ▶ Things to Avoid

▶ Advanced

- ▶ Entity Types
- ▶ QBI Deduction
- ▶ Payroll
- ▶ Retirement Accounts

Save Your Expenses



- ▶ Figure out how
 - ▶ Quickbooks
 - ▶ Excel
 - ▶ Credit Card Statements, Etc.
 - ▶ Use 1 card for everything business related.

- ▶ Download FREE monthly budgeting guide on FinancialWellness.realtor

How can I calculate my budget?



Tools & Calculators

What Can I Write It Off?

▶ Direct Expenses

- ▶ Most items you purchased that is related to your job

▶ Indirect expenses

- ▶ Most expenses qualify if used for business.

▶ Cell Phone Bill

- ▶ (100% if used solely for business)
- ▶ (A portion of the cell phone if used personally)

▶ Health Insurance (If purchased outside of a W2 Employer)

▶ IRS Rule - expenses must be “ordinary and necessary”

Common Real Estate Deductions

▶ Yes

- ▶ Gifts (Under \$25)
- ▶ Real Estate Fees
- ▶ Advertising
- ▶ Supplies
- ▶ Car Insurance (See Auto Slide)
 - ▶ Even if under personal name
- ▶ Car (See Auto Slide)
 - ▶ If purchased under business name
- ▶ Meals if meeting with a client

▶ No / Probably Not

- ▶ Gym Memberships
- ▶ Dry Cleaning
 - ▶ The answer is usually **No** if you can wear the clothing somewhere outside of work
- ▶ Satellite Radio
 - ▶ (Gray Area)
- ▶ Entertainment

Home Office

- ▶ Will I qualify for a home office? Yes if you meet these qualifications
- ▶ You use it exclusively and regularly for administrative or management activities of your trade or business.
- ▶ You have no other fixed location where you conduct substantial administrative or management activities of your trade or business
- ▶ (Wait I have desk at my broker, does that mean I do not qualify?)



Question: I have a desk in my broker's office. Does that disqualify me from deducting the home office?

- ▶ No. The following activities performed by you or others will not disqualify your home office from being your principal place of business.
- ▶ You have others conduct your administrative or management activities at locations other than your home. For example, another company does your billing from its place of business.
- ▶ You conduct administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room.
- ▶ You occasionally conduct minimal administrative or management activities at a fixed location outside your home.
- ▶ You conduct substantial nonadministrative or nonmanagement business activities at a fixed location outside your home. For example, you meet with or provide services to customers, clients, or patients at a fixed location of the business outside your home.
- ▶ You have suitable space to conduct administrative or management activities outside your home, but choose to use your home office for those activities instead.
- ▶ In English, This means that you can deduct the home office expense if the space in your home is used exclusively for business and you perform substantial work from home rather than the office.

Expenses that Qualify for the home office deduction

- ▶ Direct Expenses
- ▶ Direct expenses benefit only the business part of your home. They include painting or repairs made to the specific area or rooms used for business.
- ▶ (This is usually it for direct expenses. Most Expenses will usually qualify for the indirect expenses.)
- ▶ Indirect Expenses (must be allocated)
 - ▶ Mortgage interest
 - ▶ Rent
 - ▶ Utilities
 - ▶ Yard Maintenance
 - ▶ HOA fees
 - ▶ Pest Control
 - ▶ Repairs
 - ▶ Real Estate Taxes
 - ▶ Insurance
 - ▶ (This does not include every expense)

Auto Expenses, Can I deduct it?

- ▶ Yes you can either write off the actual expenses of the vehicle or the mileage.
- ▶ (Subject to business use of the vehicle)



You can write off either Miles or Actual Expenses

▶ Miles

- ▶ You can deduct the business miles driven
- ▶ You cannot deduct the personal miles driven or miles associated with a W2 job.
 - ▶ Track all your miles!
 - ▶ The IRS requires you to track your miles.
 - ▶ Maybe get a mile tracker app.

▶ Actual Expenses

- ▶ Car Insurance
 - ▶ Personal property Tax on Vehicle
 - ▶ Fuel
 - ▶ Repairs
 - ▶ Depreciation of Vehicle
- ▶ Note that these expenses are based on your business use of the vehicle. (Example, If you use your car for 50% for business then you can deduct 50% of these expenses)

Can I purchase a vehicle and write it off against the business? Yes

- ▶ Write off the vehicle in the year you purchased it.
- ▶ (As long as used for Business)
- ▶ (Subject to Depreciation limits)
- ▶ (Subject to recapture if used for personal use later)
- ▶ Car must be purchased in business name

Estimated Tax Payments

- ▶ All Tax Payments are due Quarterly for Self-Employed Individuals
- ▶ Need to estimate income and send payments to the IRS and your state quarterly.
 - ▶ You pay the taxes in the state you earn the income
 - ▶ Example (You live in VA and sell houses in MD. You should pay MD Taxes)
- ▶ Payment Deadlines
 - ▶ April 15th
 - ▶ June 15th
 - ▶ September 15th
 - ▶ January 15th

Things to Avoid

- ▶ Not paying quarterly
- ▶ Not putting money away for retirement
- ▶ Getting behind

Plus...

- ▶ Gifts over \$25
- ▶ Entertainment (Not Deductible)

Quick Intro into LLC's (Limited Liability Companies)

- ▶ LLC's are created by each state.
- ▶ They provided Limited Liability for the owner.
- ▶ LLC's can be taxed in different ways.
- ▶ Get an LLC in the state you live in. It does not matter where the LLC is. (It does not matter if it's a Delaware LLC)
 - ▶ Sole Proprietor (Disregarded entity)
 - ▶ Earnings are subject to Self Employment Tax + Regular Tax
 - ▶ Partnership
 - ▶ Earnings are subject to Self Employment Tax + Regular Tax
(Same as Sole Prop but with at least two partners)
 - ▶ S-Corp
 - ▶ Earnings are not subject to SE tax but owners must take reasonable salary, which is subject to payroll tax

Entity Selection for Operating Businesses

Profit	Under \$20,000	\$20K - \$80K	\$80K - \$157K	\$157K +
Quarterly Taxes	Yes, But you could wait	YES	YES!!!	YES!!!
How much should I withhold?	15% + State	25% + State	20% + State	25% + State
Preferred Entity Type	Sole Prop / Single Member LLC	Sole Prop / Single Member LLC	S-Corp	S-Corp
Save for Retirement?	Always	Always	Always	Always

Please note that these entities are usually the best entities given most situations. These entities might not be the best entity in every situation. Please consult your tax advisor to see which one is right for you.

Should I take Payroll?

It's mandatory in some situations. In some situations it will provide you benefit but not all situations

Filing Status: Single

		Entity Type		
		Sole Prop	Partnership	S-Corp
Taxable Income	\$0 - \$20K	No Benefit	No Benefit	Mandatory
	\$20K - \$80K	No Benefit	No Benefit	
	\$80K - \$157K	No Benefit	No Benefit	
	\$157K +	Maybe, it depends	Maybe, it depends	

Filing status: Married Joint

		Entity Type		
		Sole Prop	Partnership	S-Corp
Taxable Income	\$0 - \$20K	No Benefit	No Benefit	Mandatory
	\$20K - \$80K	No Benefit	No Benefit	
	\$80K - \$157K	No Benefit	No Benefit	
	\$157K - \$315K	No Benefit	No Benefit	
	\$315K +	Maybe, it depends	Maybe, it depends	

- Please note that the taxable income comes into play with payroll. This is different than the profit mentioned on the earlier slide. This includes all the taxable income with you and your spouse.
- Please note, that S-Corp owners must take payroll. It might not make sense to be an S-Corp until you make about \$80K profit.
- I did not include C-Corps in this chart. C-Corps do not need to pay their owners payroll. It might make sense to in certain situations.
- I have included situations of “Maybe, but it depends”. The QBI Deduction will start to phase out if payroll is not taken. You should seek a tax professional at that point. It might make sense to take payroll at that point but not in every situation.

S-Corps

S-Corp Time if Income is over **\$80K**

- ▶ Time to take payroll
 - ▶ Need to take a reasonable salary
 - ▶ This depends on how long you have worked / how much money you have made.
- ▶ Now it's really time to get a professional involved.

Please note that the S-Corp is usually the best entity when saving taxes. It might not be the best entity for everyone and every business. Please consult your tax professional to see if the S-Corp is right for you

Qualified Business Income Deduction (QBI)

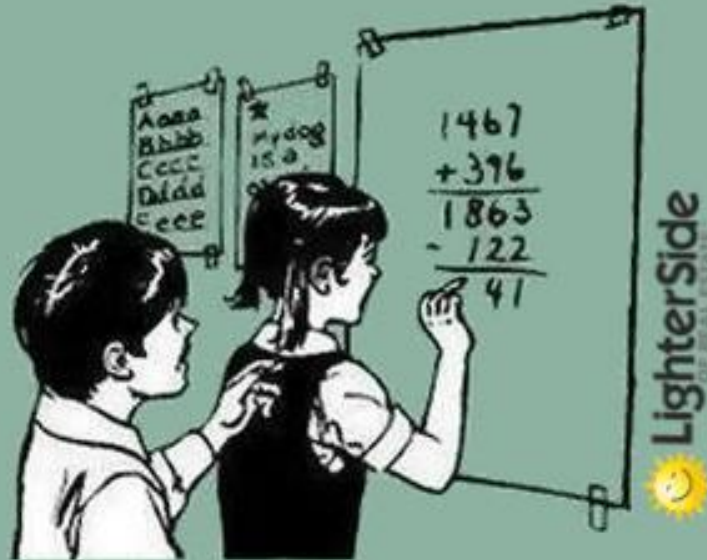
- ▶ You get a **20%** deduction from Net Income from businesses
- ▶ This is a massive deduction.
- ▶ It starts to phase out if not taking payroll
 - ▶ See prior slide

Retirement Accounts

- ▶ Real-estate professionals receive a preferential method of saving for retirement
- ▶ This is a huge opportunity for real estate agents. They are allowed to contribute up to \$57,000 to their retirement plans annually! This is huge difference from the maximum contribution permitted to a 401K of \$19,500.
- ▶ Unfortunately, our real-estate professional clients seldom take advantage of their Simplified Employee Pension (SEP) IRAs, let alone save for retirement.
 - ▶ **Special Retirement Investment Offers for REALTORS®**
visit - <https://www.nar.realtor/center-for-realtor-financial-wellness/special-offers>

Thank You!

A real estate agent has 2 property listings.
Now add 11 more. What does the agent
have now?



Happiness.
That agent has happiness.



Contact Speaker

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Questions?

ASK IN THE Q&A Box

OR SEND QUESTIONS TO:

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Thank You!
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