Tax Planning Information for Real Estate Agents and Brokers

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PLANNING FOR REAL ESTATE AGENTS AND BROKERS

KEEPING RECORDS

Why should I keep records?

- Monitor your level of income and results of your efforts
- Identify the source of your sales to track where you have had the greatest success (locations, property types, price range and demographics)
- Keep track of your tax deductible expenses and the expenses that helped generate your income
- Use in preparation of your annual tax return
- Support the items (deductions) on your tax return

What kind of records should be kept?

- Form 1099-Misc (IRS Form for Miscellaneous Income)
- Invoices (Listing fees, advertising, lockbox, mailers, etc.)
- Bank statements and cancelled checks

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KEEPING RECORDS (continued)

How long should records be kept?

Generally, taxpayers must keep records that support an item of income or deduction on a tax return until the period limitations for that return runs out. This means you must keep records that support your deduction (or an item of income) for three years from the date you file the income tax return on which the deduction is claimed.

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TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

Common Deductions:

- Advertising expenses, including websites, mailing lists, newspaper advertisements, fliers, online advertising, postcards, promotional materials, etc.
- Bookkeeping, accounting and legal fees
- Business Gifts (up to $25 limit)
- Business meals and entertainment (only 50% deductible)
- Cab or Uber fares for business travel
- Auto expenses, including business mileage, depreciation, insurance, interest on auto loans, lease payments, license plate fees, parking expenses and tolls
- Cell phones
- Computer software
- Computers
- Desk Fees
- Education to maintain or improve required skills
- Home office expenses (if qualified)
- Insurance, including health insurance, errors and omissions insurance, business liability insurance, and business equipment insurance
- Interest, such as interest paid on business credit cards
- Internet access fees

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TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS (CONTINUED)

Common Deductions: (continued)

- Office equipment (cost may be deducted in one year or accelerated with available depreciation methods)
- Office expenses, including rent, cleaning and maintenance and utilities
- Office supplies
- Postage
- Professional dues and fees – for example multiple listing service dues, dues paid to the local Chamber of Commerce, Realtor associations and license renewal fees
- Retirement plan contributions
- Subscriptions to professional journals (both digital and print)
- Real estate franchise fees
- Taxes, including payroll taxes for employees, state and local business taxes
- Travel to business conventions, including transportation, lodging and food

TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

AUTO LEASE VS. BUY

Greater tax benefit?

- Monthly payments on a leased vehicle are deductible as paid (business portion).

- Purchased vehicles must be depreciated over a number of years. The amount of annual depreciation is limited. For 2017 the limit on first year deprecation of passenger automobiles is $11,160 (when eligible for bonus depreciation). The annual depreciation then changes to $5,100, $3,050 and $1,875 in each successive tax year.

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TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

Deducting Automobile Expenses

- If you use your car in your business and use it solely for that purpose, you may deduct the entire cost of operation (subject to limits discussed later). However, if you use the car for both business and personal purposes, you may deduct only the cost of the business portion.
- You can generally determine the amount of your deductible car expense using one of two available methods: the standard mileage rate method or the actual expense method.
- If you use the standard mileage rate, you can only deduct the mileage at a standard rate. For 2017, the rate is 53.5 cents.
- If you use actual vehicle expenses, you cannot deduct mileage. Instead you can deduct:

Depreciation (if owned)	Repairs
Monthly Payments (if leased)	Insurance
Licenses	Garage rental
Registration fees	Gas

- If your vehicle is used for both business and personal use, you must allocate your expenses.

TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

2017 Federal Income Tax Rates

Tax Rate	Single	Married, Filing Jointly	Married, Filing Separately	Head of Household
10%	$0 to $9,325	$0 to $18,650	$0 to 9,325	$0 to $13,350
15%	$9,326 to $37,950	$18,651 to $75,900	$9,326 to $37,950	$13,351 to $50,800
25%	$37,951 to $91,900	$75,901 to $153,100	$37,951 to $76,550	$50,801 to $131,200
28%	$91,901 to $191,650	$153,101 to $233,350	$76,551 to $116,675	$131,201 to $212,500
33%	$190,651 to $416,700	$233,351 to $416,700	$116,676 to $208,350	$212,501 to $416,700
35%	$416,701 to $418,400	$416,701 to $470,700	$208,351 to $235,350	$416,701 to $444,550
39.6%	$418,401+	$470,701+	$235,351+	$444,551+

TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

Estimated Tax Payments

- If you are filing as a self-employed individual, you generally have to make estimated tax payments if you expect to owe tax of $1,000 or more when you file your return.

- For estimated tax purposes, the year is divided into four payment periods.

- If you did not pay enough through the year, you may have to pay a penalty for underpayment of estimated tax. Generally, taxpayers will avoid this penalty if they owe less than $1,000 in tax after subtracting any withholding or credits, or if they paid at least 90% of the tax for the current year, or 100% of the tax on the prior year return, whichever is smaller.

- If your 2016 adjusted gross income (line 38 of Form 1040 page 2) was more than $150,000 ($75,000 if you are married filing a separate return), you must pay the smaller of 90% of your expected tax for 2017 or 110% of the tax shown on your 2016 return to avoid an estimated tax penalty.

TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

Retirement Planning

Simplified Employee Pension (SEP)

- Contribute up to 25% of your net earnings from self-employment, up to $54,000 for 2017

401(k) Plan

- Single participant 401(k) plans are available.
- Salary deferrals up to $18,000 in 2017 (plus an additional $6,000 if you are 50 or older)

Other plans:

- Profit Sharing Plan (similar to SEP in contribution amounts)
- Defined Benefit Plans (traditional pension plan with a stated annual benefit)

TAX PLANNING FOR REAL ESTATE AGENTS AND BROKERS

2017 Retirement Chart

	Traditional IRA	Roth IRA	SEP IRA	SIMPLE IRA	401(k) / 403(b)
Annual contribution limit	$5,500 if you're under 50; $6,500 if you're 50 or older	$5,500 if you're under 50; $6,500 if you're 50 or older	25% of earnings, up to $54,000	$12,500 if you're under 50; $15,500 if you're 50 or older	$18,000 if you're under 50; $24,000 if you're 50 or older
Earliest withdrawal age to avoid penalties	59-½ (exceptions apply)	59-½ for earnings portion; principal contributions can be withdrawn at any time	59-½ (exceptions apply)	59-½ (exceptions apply)	59-½ (exceptions apply)
Required minimum distributions	Starting at 70-½	No required minimum distribution	Starting at 70-½	Starting at 70-½	Starting at 70-½
Taxes on contributions	Contributions are made with pre-tax dollars	Contributions are made with after-tax dollars	Contributions are made with pre-tax dollars	Contributions are made with pre-tax dollars	Contributions are made with pre-tax dollars
Taxes on withdrawals	Withdrawals are taxed as ordinary income	Withdrawals are tax-free	Withdrawals are taxed as ordinary income	Withdrawals are taxed as ordinary income	Withdrawals are taxed as ordinary income