

TAX TIPS EVERY REAL ESTATE AGENT NEEDS TO KNOW IN THEIR FIRST YEAR

By Margaret Flowers, CPA and Cheryl Row

Real estate agents are generally paid commissions on the sales of property and receive a 1099 at the end of the year. This means that now you are considered self-employed for tax purposes and you should approach this like any business venture. This means that it is now time to keep track of your income and expenses to track the monetary success (and failures) of your new business. Having a good system for tracking can help to ensure that you are not missing out on deductions against your income and therefore lower the amount of taxes that you pay on your income.

What kind of expenses can I deduct?

You can now deduct expenditures related to your business activities. This includes keeping track of your mileage for both business and personal use. There are several apps available to help you to track your mileage and these logs that are created will help to calculate your mileage and business use percentage. You can either deduct business mileage times the IRS authorized rate or a percentage of your actual expenses such as fuel, insurance, interest on your automobile loan, repairs and maintenance. This percentage is based on the business mileage in relation to total mileage for the year.

You can also deduct the cost of any supplies you use in your business. Do you use your computer or smartphone to post your listings on the MLS, or to scour listings for your purchasing clients? The cost of the phone or computer is deductible as well as the internet service you pay for. If you buy gifts for your clients or take them to eat while you are showing properties, these items are deductible against your income.

When you receive your commission income from your broker, many times they will withhold an amount for Errors and Omission (E&O) Insurance and other costs from your portion. It is important to ask your broker if these amounts are deducted from your income on your 1099 or if they are included on the 1099. If they are included, you can deduct them against your income.

The amounts you pay to renew your license or any organization dues are also deductible.

Do you have an office in your home that is reserved exclusively for your business activities? If so, you can deduct a portion of the mortgage interest, rent, property taxes, insurance, utilities and repairs based on the square footage of your office to the total square footage of the home.

If you purchase items for your business using a credit card, we recommend that you use one solely for business expenses. This will help keep your business expenses separate from your personal expenses and any interest paid on the credit card will also be deductible. If you mix business and personal, you cannot deduct the interest.

How much should I put away for taxes?

Since you are now considered self-employed, you will pay self-employment taxes of 15.3% of your net income. This is after your expenses. You will also pay income taxes and the amount will depend on what other income your household shows. For 2019, a single taxpayer with taxable income below \$39,475 will pay 12%.

Now that you are self-employed, it is important to keep track of your financial situation as banks will ask for different documentation than in the past when obtaining funding.

There are several accounting software options available for relatively low cost that are fairly easy to use. Also, using a bookkeeper to help keep track of your income and expenses will help to free up your time to focus on selling properties.

If you have any questions about what you can and cannot deduct, please call our office and schedule an appointment with one of our accountants and we would be happy to discuss any of these items with you.



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