STRATEGIC TAX SOLUTIONS CPA

AVOID THE COSTLY TAX MISTAKES MOST REAL ESTATE INVESTORS MAKE

BY

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ABOUT VICTOR...

Victor Williams is the founder of Strategic Tax Solutions CPA, a firm of professionals dedicated to providing strategic tax solutions for individuals and business owners looking to grow and maintain wealth. Victor's team ensure that clients now have access to the same tax strategies and advice previously available to the one-percenters. Under Victor's guidance the whole team work to provide a WOW client experience through forward-thinking and proactive advising and delivering on promises. Victor builds trust with his clients through a transparent service and pricing approach. He takes a holistic view of his client's situation and come up with strategies and steps to be implemented to grow and maintain wealth. He believes that real estate investing is critical to building sustainable and generational wealth.

The organization is a reflection of the owner's lifetime goals. After spending time acquiring a solid financial education and working in the corporate world, he was finding it a challenge in meeting his financial goals. He finally came to the realization that one of the surest ways to build and maintain wealth is through real estate investing. He had since embarked on this journey and have grown his real estate portfolio using a combination of sound financial planning and tax strategies. He now owns interests in rental properties and real estate investments in three states and growing along with a well-diversified investment portfolio.

THE WEALTH STRATEGY PROGRAM

This packaged Wealth Strategy Program is designed to help investors or small business owners maximize their profits while minimizing their tax liabilities. It evaluates clients' financial and tax situations, develops customized tax strategy, and helps with implementation, day-to-day activities, and overall successful business practices.

Make sure you are getting the best tax advice. Let me evaluate your financial and tax situation, then develop a customized tax strategy just for you. Together, we will come up with a strategic plan designed to answer your questions as you build your own customized wealth- building plan.

“STRATEGIES TO AVOID THE SOME OF THE COSTLY TAX AND ENTITY STRUCTURING MISTAKES MOST REAL ESTATE INVESTORS MAKE!”

An overwhelming majority of our Clients extend their tax returns and often times for good reason. It behooves all of us to carefully go over our books for last year and maximize every possible deduction to the greatest extent possible. Don't forget that as a business owner the main foundation of protecting your bottom line from Uncle Sam is to keep good accounting records. We have you covered as our firm is a Certified member of the QuickBooks ProAdvisor program.

Well, as a CPA, I hate to say this but one of the major reasons that taxpayers lose a ton of money to Uncle Sam is actually because they receive bad advice. I often spend countless hours in speaking with taxpayers who felt they may have overpaid taxes for the previous year.

In this FREE Report, I would share some of the most common and costly tax mistakes that you need to know to protect you from overpaying taxes. I also explore entity structuring and how important it is to have the right entity for your real estate investments. If you don’t plan accordingly and set reasonable investing goals combined with the right entity structure, you will find yourself paying higher taxes than you should. As a real estate investor choosing the right entity structure will save you big and you may also want to know which entities are on the IRS radar for auditing purposes.

Mistake #1: Deducting Expenses in the Wrong Place

Heard of the phrase all men are created equal? Well, unfortunately, not all tax deductions are created equal. For example, did you know that your travel expenses can save you as much as 50% in taxes or save you ZERO taxes? You may be surprised to hear this but there is actually a RIGHT way and a WRONG way to take your tax deductions. One of the most common mistakes we see from taxpayers, is tax deductions are frequently being taken in the wrong place.

Take the example of a client Dante who is a pilot. Dante also has a business where he sells nutritional products. For all of Dante's travel costs, his tax preparer took those deductions on his Schedule A as unreimbursed employee business expenses. Based on his income level and the limitations on Schedule A, he was unable to benefit from any of his $14,000 of travel costs. Had he correctly reported these travel costs to be part of his business expenses (i.e.: on his business tax return or Schedule C), he would have been able to increase his tax refund by close to $7,000.

Now you can see what we mean when we say not all tax deductions are created equal:

Make sure you are taking your tax deductions on the right forms and schedules!

Mistake #2: Limited by Passive Loss Rules

Here is another common situation I see quite frequently. Donna is a retired teacher and she operates a home-based health food business with her friend Maggie. Based on the advice of her advisor, Donna and Maggie correctly formed a partnership to jointly run the business. As with many businesses, 2013 was a bad year and the business suffered losses of around $30,000.

After meeting with their tax preparer, Donna was shocked to learn that she still owed taxes to the IRS. We reviewed her tax return to find out that her CPA incorrectly prepared Donna's individual tax return showing her to be a passive investor in the partnership rather than as an active business owner.

This error left $30,000 of tax write-offs on the table! Fortunately for Donna, it was easy for us to simply check a box in the tax return for her to claim that $30,000 tax write-off. So, if you are a business owner or someone who receives a K-1 from any of your businesses or investments, make sure you speak to your tax preparer to ensure you are not erroneously being limited on your tax write-offs by the passive loss limitation rules.

Mistake #3: Real Estate Professional Status

If you are a real estate investor, you MUST read and understand this. The reason is because this is by far the biggest mistake that I see time and time again made by real estate investors and this is a mistake that cannot be undone. What I am talking about is the real estate professional status. Lynne has been working with a CPA for many years and was always told she has been benefiting from the tax deductions as a real estate professional. When I reviewed her tax return a couple of years ago, I had to be the bearer of bad news and let her know that her CPA prepared her taxes wrong and she lost out on $20,000 of a tax refund. The worst part of this was that there was nothing I could do after the fact to get that money back for her.

So, what exactly is the real estate professional status? Well, it actually has nothing to do with your education, professional licenses that you hold, or what type of business you are in. Rather, the IRS looks to what you do for real estate and how much time you spend in your real estate activities. The reason that you want to qualify for the real estate professional status is because without the real estate professional status, your ability to actually benefit from your real estate tax deductions may be limited.

As a real estate professional, however, you get to take advantage of an unlimited amount of real estate deductions each year on your tax return.

Contrary to popular belief, the real estate professional status is not taken by simply indicating that as your occupation on your tax return. It is not a specific form to fill out or even a particular box to check. Rather, it is an election that must be attached to your tax return at the time you file it.

If you invest in real estate, make sure you speak to your tax preparer to ensure that election is in place before you send off that tax return. The average tax savings between a real estate professional and someone who is not a real estate professional is anywhere. between $15,000 to $35,000 each and every year!

Mistake #4: Missing Carry forward Tax Benefits

There are a lot of things on our tax returns that move with us from year to year and these are commonly referred to as "carryforwards". For example, if you had certain types of tax deductions, losses, or tax credits that you were not able to use in the past for any reason, these generally get "carried forward" on your tax returns from one year to the next.

One of the most common mistakes we see is carryforward tax benefits being lost between the years. For example, a new client Brandon made some bad investments in 2008 and had close to $40,000 of a loss carryforward on his tax return. However, his over-worked CPA somehow "lost" that carryforward when he prepared Brandon's 2009 tax return. It was a mistake that could have cost Brandon close to $18,000 of tax refunds over the next few years! A small, but potentially costly mistake.

Mistake #5: Lack of Proactive Planning and Analysis

There is no doubt that the best way to minimize your tax liability is with proactive tax planning and analysis. Proactive and frequent planning sessions with your tax advisor allows you to take advantage of opportunities that can significantly diminish your tax liability. Here is an example of an opportunity that I just went through with a new client. Jenny has 2 daughters who are currently in college. After a review of her previous year's tax returns, I noticed her tax preparer did not claim an education tax credit of $2,500 each for her college daughters. Jenny's tax preparer told her that due to her high-income level, she is not able to claim any education credits for her sons.

Now although this is a correct statement (there is an income limitation for claiming the education tax credits), there was a loophole that was overlooked. With some analysis, I determine an easy loophole: Jenny's daughters could have filed their own tax returns and they could have benefited from the $2,500 each on education tax credits! With a little strategy and analysis, Jenny and her daughters were able to increase their overall tax refund by $5,000 per year just by taking advantage of the education credit!

Mistake #6: Not having an entity structure that shields you

Your LLC is toxic if it does not shield you, causing your personal assets to be totally exposed. You therefore are not protected from legal actions (when you should). It is not the size of the entity, but rather the existence of complete and proper documents, which provides the protection from personal liability for the LLC members.

Toxic LLC's do not properly deal with BOTTOM UP CREDITORS (has a claim and/or gets a judgment against the LLC arising from the acts or omissions of the company rather than from the acts or omissions of a member, manager or employee) as well as TOP DOWN CREDITORS (gets a judgment against the member because of the member's acts or omissions, rather than the acts or omissions of the LLC, its managers or employees).

Mistake #7: Not having an entity structure that save you in taxes

Having certain Tax Elections and Tax Matters in the operating agreement and other LLC documents can generate for you, yearly tax savings you did not even know about.

Mistake #8: Not having an LLC that defends you against IRS

IRS auditors typically examine LLC legal documents to see if they support tax deductions and strategies. If they don't, you are out the deductions and a lot of money.

Mistake #9: Not having an entity structure that prevents legal disputes with partners or others

Having the proper language would do this and save you from costly lawsuits.

Mistake #10: Not having an entity structure that gives you important operating guidelines for successfully running your business

LLC documents (especially the operating agreement) should also be your roadmap to help you implement a profitable real estate business.

Generally speaking, the LLC is the ideal entity to start your real estate investing with. If you decide to hold on to the property, stay with the LLC. If you flip or rehab and flip you will want something with S Corp tax treatment. So, either elect S Corp for your LLC or start a new company.

If you want to finally be confident this year and file your taxes knowing you have taken advantage of all the tax loopholes available to you, give us a call at 443.967.3234 and we would be happy to get you started

Click Here to book a FREE consultation with Victor