

PROFITABILITY: AGENT FINANCIALS

Fund Your Big Life

Participant Guide

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Date: _____

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Table of Contents

Perspective	1
A Financially Sound Business.....	2
Your Numbers, Your Success.....	6
Imagine the Possibilities!.....	7
Use Proven KW Business Models.....	11
The MREA Models	12
The Flow of Money.....	13
Bottom Line	18
Strengthen Your Business.....	19
Get Leverage.....	20
Choose Your Business Entity	25
Bottom Line	29
Conquer Taxes.....	31
The Taxing Truth.....	32
Deductions and Credits	37
Record-keeping.....	44
Bottom Line	45
Plan and Track Your Way to Success.....	47
Goals vs. Actuals.....	48
Two Business Financial Scorecards.....	49
Budget Planning.....	64
Track Your Success.....	72
Mind Your Future.....	75
Health Check.....	76
Build Your Future Now	78
Bottom Line and Take Action!	84
Appendix	87

PERSPECTIVE

In this chapter

- A Financially Sound Business
- Your Numbers, Your Success
- Imagine the Possibilities!

A Financially Sound Business

This course prepares you for the six habits that ensure a **financially sound business**.

1. Set a profit goal that funds your Big Life and pursue the activities to achieve it.
2. Estimate, save for, and pay your taxes on time.
3. Use the proven models and systems of the MREA Chart of Accounts.
4. Be fiscally savvy by reviewing your financials monthly.
5. Pay yourself a salary.
6. Prepare now for a financially secure future.



Keller Williams is known for models, systems, and technology, so naturally KW offers powerful tools driven by technology to help you pursue your personal and business goals.

Use the proven models and tools of *The Millionaire Real Estate Agent* (MREA) to have a smart, sound business!

Which Is Your Business?

Whether a business is financially sound—with systems that create sustainable growth—or unsound—with hit-or-miss processes that are unfocused and inconsistent—depends on how you set up and maintain your business. Which do you choose?

Unsound



- Inhibits opportunity and growth
- Reduces your effectiveness
- Saps time
- Creates unneeded stress
- Can be expensive!

Sound

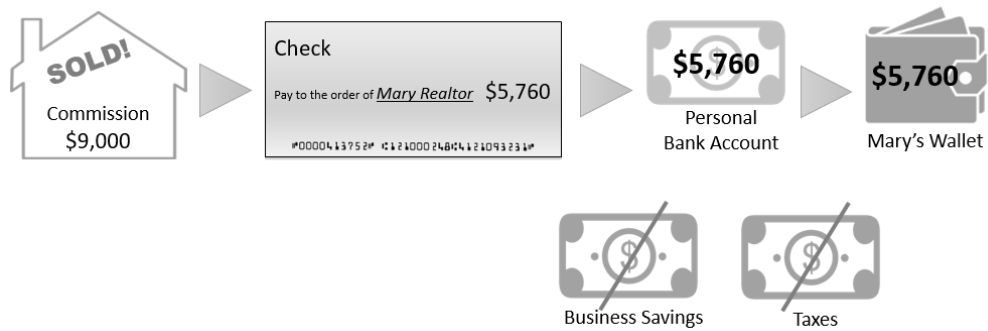


- Worry- and stress-free
- Allows you to take advantage of opportunity
- Frees you up to do more
- Makes your money work for you
- Prepares you for challenging times

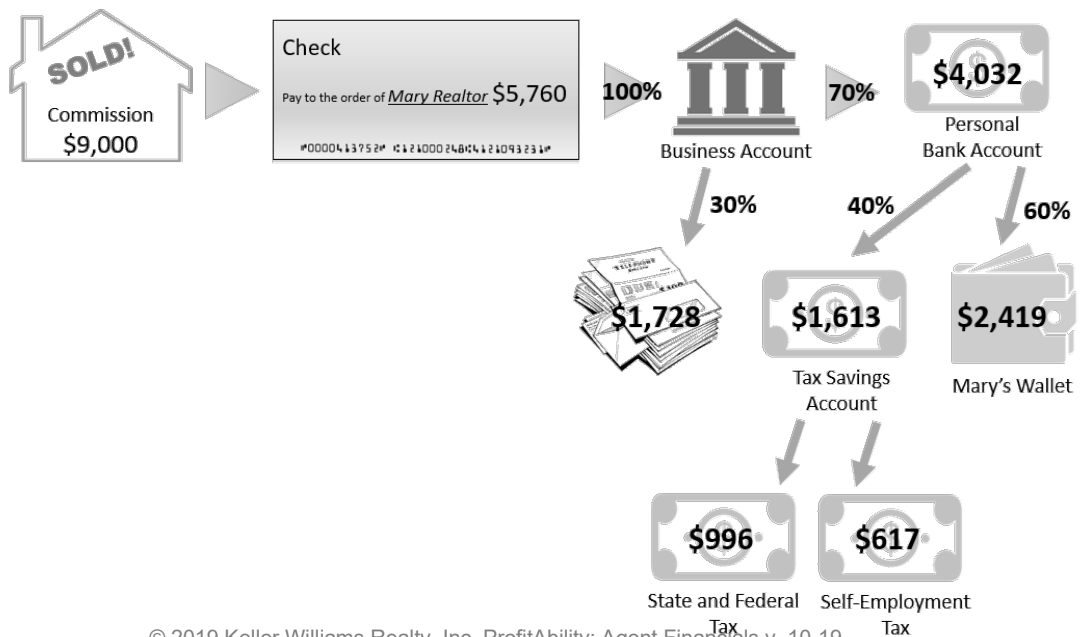
Financially Sound or Unsound?

Review two scenarios of a solo agent and discuss which one is sound business practice and which one is unsound and why.

1. New agent Mary earns a commission of \$9,000, and after paying her broker, she receives a check in the amount of **\$5,760**. She deposits it in her personal bank account to pay for personal credit card debt and household expenses.



2. New agent Mary receives her check in the amount of **\$5,760** and deposits it in her business bank account to cover business expenses. She pays herself a salary of \$4,032, which goes into her personal bank account, then transfers 40 percent of her salary, or \$1,613, from her personal account to her tax savings account. This leaves Mary with \$2,419 to pay household and living expenses.



Financially Sound Business Example

1 transaction

\$9,000 commission

\$5,760 net payment check

\$2,419 in your pocket

Expenses and taxes accounted for!

Your aha's from the "financially sound business example."

Your Numbers, Your Success

Your numbers tell a story! What do yours tell about you?

Can you know you're winning a game if you don't know the score? Of course not. Likewise, the only way you'll know if you're winning in your real estate business is by knowing the score—the numbers—of your business. Your progress to your goals is the measure of a healthy, financially sound business.

As a sales professional, you know a lot about *making* money! You are also a **business owner**, and for this reason, it's essential to internalize where your money comes from, where it goes, and how best to protect it by knowing your score at all time.

How Do You Measure Success?

You currently measure your success in some way. Is it how much money you have in the bank? Or how many closings you've had this month? Or the size of your database?

How Do You Keep Score?

- Gross Commission Income (GCI)
- Volume
- Units/Closed
- Net Income/Profit
- Money in the Bank
- Multi-Year Trends Report
- Language of Real Estate (LORE)
- _____

Imagine the Possibilities!

Profiting from Profit

Profit fuels your hopes and dreams. What dreams will you fulfill with yours?

1. Fund the Big Life You've Always Envisioned

- Provide for your family
- Reward yourself when you achieve a goal
- Do something just for fun with family and friends

2. Grow Your Business

- Invest in your business
 - People
 - Equipment/Tools
 - Workspace
- Thank your clients with an appreciation event

3. Invest In Your Future

- Buy investment properties
- Build a reserve for when the market changes or unexpected events arise
- To strengthen and grow your skills, attend training events and seminars and hire a coach

4. Build a Legacy

- Donate to charities
- Create your own charity, foundation, or cause

Your Big Life

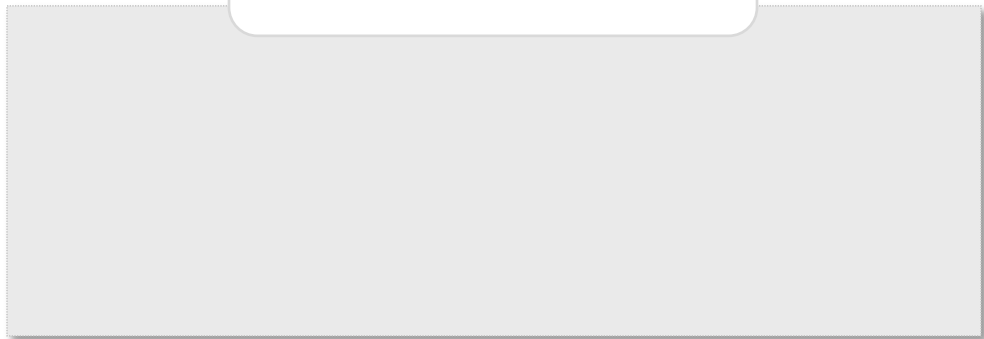
Activity: What Will You Do with Your Profit?

Envision your Big Life and write down the dreams you intend to fulfill with your profit. Be specific, e.g. "I will provide for my children's education, so they are debt free when they enter the workforce." Or, "I will build five homes to serve needy military veterans' families."

How much profit will it take? \$ _____

Keep your eye on the prize—your profit.

What tool does KW provide to keep your eye on your profit?



Activity: Financial Fitness Assessment (5–10 mins.)

What's your financial fitness? Complete the following assessment and answer each question honestly and to the best of your knowledge. (For your eyes only!)

	Do you ...	Yes	No	Some-times
1	Have a stated profit goal for the year?			
2	Use a written budget for your business?			
3	Use a Profit and Loss (Income) Statement and review it monthly?			
4	Have separate business and personal checking accounts and credit cards?			
5	Contribute to a tax savings account regularly?			
6	Pay estimated taxes each quarter?			
7	Have a tax adviser /CPA?			
8	Track your business miles driven?			
9	Keep receipts for your business expenses?			
10	Pay yourself a regular salary?			
11	Use the MREA Chart of Accounts?			
12	Know how your margins compare with the MREA ones?			
13	Know the average cost of each of your transactions?			
14	Know what it costs your business even if you make no money?			
15	Have an active Profit Share Tree?			
16	Have a solid plan in place for your financial future?			
17	Have no outstanding consumer debt?			

Activity: What do you plan to achieve from taking this course?

- 1. Write down what you plan to achieve from taking this course. Be specific.

- 2. From what you've learned so far, choose the ONE Thing you will do today to move toward your financial goal.



“Every adversity, every failure, every heartache carries with it the seed of an equal or greater benefit.”

NAPOLEON HILL, AMERICAN AUTHOR

USE PROVEN KW BUSINESS MODELS

In this chapter

- The MREA Models
- The Flow of Money

The MREA Models

To hone your financial acumen, make the most of the MREA models. Begin by understanding the foundational MREA Economic Model below.

MREA Economic Model		Percentage of GCI
Income	GCI – Gross Commission Income	100%
Expense	COS – Cost of Sales	30%
	Operating Expenses	30%
Profit	Net Income/Profit	40%

A \$10,000 Commission Check

Based on the MREA guidelines, a \$10,000 commission check would be distributed this way:

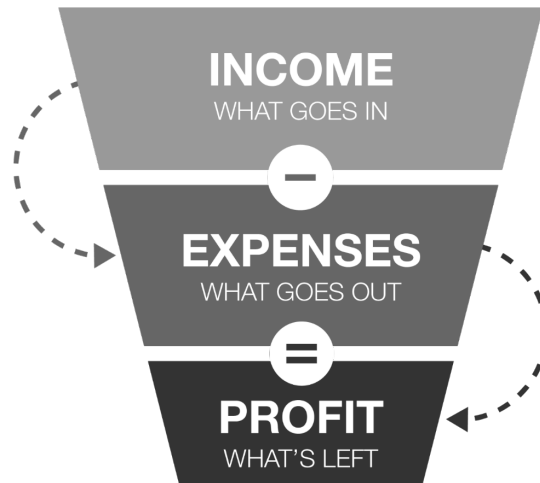
\$10,000 Commission Check	
Gross Commission Income (GCI)	\$10,000
Cost of Sales	\$3,000
Operating Expenses	\$3,000
Profit	\$4,000

The Flow of Money

Think of the economic model as your flow of money. You get paid. You spend money. You have some left over.

Calculate your profit by subtracting your expenses “**what goes out,**” from your income “**what goes in.**”

- **Income**
- **Expenses**
- **Profit**



Flip the profit formula to **set and track your profit goals**. Ask yourself the following questions:

1. How much money do I want in my bank account at the end of the year?
2. How many homes do I need to sell to achieve my profit goal?
3. How can I minimize my expenses to maximize my net income?



What Goes In

Income from Your Real Estate Business

This is commission earned from closed transactions—typically 3 percent from one side of a sale. It includes listing income, sales income, referral income, and leasing income, for both residential and commercial transactions.

Note: This does not include passive income, e.g. Profit Share or rental income.

What Goes Out

There are two elements that go out: **Cost of Sales** and **Operating Expenses**.

1. Cost of Sales (COS)

COST OF SALES

The cost (expenses) related to each transaction you make. The cost of making the sale.

Cost of Sales includes:

- Commissions paid to the office (fees to your broker—*Company Dollar*)
- Royalty fees paid to KW
- Commissions or splits paid to employees or independent contractors involved in sales
- Referral fees

Digging in to Cost of Sales (COS)

Your gross commission income (GCI) is the amount you get paid based on the sales price of a transaction, typically 3 percent for each side. GCI is **not** what you receive in your commission check! The amount you receive reflects the amount deducted to pay your broker and Keller Williams Realty, Inc. These deductions are part of your **Cost of Sales**, the cost of making a sale.

After your broker and KW have been paid, you receive a check for a **net** commission amount. Here's how the calculation breaks down.

- **GCI x 30%** = amount paid to broker (*Company Dollar*) up to a maximum amount (cap) of \$20,000
- **GCI x 6%** = amount paid to KW (*Royalty*) up to a maximum cap of \$3,000
- **Net commission check** = GCI – Company Dollar – Royalty

**Keep in mind ... no sale, no cost of sales.*

Activity: Cost of Sales' (COS) Effect on Net – Non-Cap vs. Cap

You closed on a transaction and your 3 percent (the GCI) is \$9,000.

1. You have not yet capped on Company Dollar or Royalty. What is the net commission check you will receive after COS?

2. You have already capped on Royalty and have not yet capped on Company Dollar. What is the net commission check you will receive after COS?

3. You have capped on both. What is the net commission check you will receive after COS?

2. Operating Expenses

OPERATING EXPENSES

The cost (expenses) related to running your business. These costs occur whether you have sales or not.

Operating expenses include:

- Rent
- Auto
- Salaries for administrative manager and staff, transaction coordinator, runner, and buyer and listing specialists
- Insurance
- Professional services
- Marketing and advertising
- Equipment and supplies
- Education

What's Left Over

Net Income/Profit

NET INCOME / PROFIT

Your business's total earnings comprised of Income minus Cost of Sales and Operating Expenses.

The name of the game is PROFIT and for this reason profit is your starting number.

- What is your profit goal for this year? _____
- Is your profit goal big enough to fulfill your Big Dreams? _____

"Money is good for the good it can do."

GARY KELLER, COFOUNDER, CHAIRMAN AND CEO, KELLER WILLIAMS

Activity: Plan for Your Future with Your Profit Goal (10 mins.)

Beginning with your profit goal, work backward to calculate the GCI—“what goes in”—needed to produce that profit. Calculate the Cost of Sales and Operating Expenses at 30 percent each.

NET Profit Goal (Money in your bank account at the end of the year)		=	
GROSS Profit Goal (Anticipate your tax liability on net profit goal)	Divide net profit goal by 60% (40% tax liability).	=	
Gross Commission Income (Income needed to generate gross profit goal)	Divide gross profit goal by 40%.	=	
Home Sales (Homes sales needed to generate GCI)	Divide GCI by average commission income. (Ex: \$7,500)	=	
Anticipated Cost of Sale (30% of GCI)		=	
Operating Expenses Budget (30% of GCI)		=	

Write down your aha's form completing the profit goal activity.

Bottom Line

1. You are a business owner first!
2. Commit to a financially sound business based on the systems of MREA.
3. Know your desired profit goal and the required GCI and activities to achieve it.

Take Action

List at least ONE action you will take as a result of what you've learned in this chapter.

1. _____
2. _____
3. _____



STRENGTHEN YOUR BUSINESS

In this chapter

- Get Leverage
- Choose Your Business Entity

Get Leverage

Get leverage with financial tools and advisers so you can concentrate on your ONE Thing—lead generation. Begin with the proven MREA models, systems, and tools, and simple accounting software.

Accounting Software

Use easy, widely available, and supported accounting software such as AccountEdge, Quicken, or QuickBooks. You may also use Excel or Google Sheets, or use a paper ledger if you're more comfortable writing everything down.

(Note: There is a simple version of the MREA Budget Model on kellerink.com.)

Your Financial Team

1. Accountant/Bookkeeper

YOU are the bookkeeper when you're starting out and have few financial transactions. It's critical to understand basic requirements of accounting for your business and be familiar with small business accounting and tax reporting.

It's highly advisable to hire an accountant or bookkeeper as soon as possible. And, it's important to hire a professional who understands and has experience with real estate business and the tax implications. Together, identify the numbers to study each month.

What your accountant/bookkeeper does for you:

1. Pays the bills
2. Records all payments
3. Follows the MREA Chart of Accounts
4. Reconciles all bank accounts and credit cards monthly
5. Prepares monthly financial statements

2. CPA/Tax Adviser

Your CPA or tax adviser is a certified professional who helps you keep as much of your money as possible and keeps you out of fiscal trouble.

What your CPA/tax adviser does for you:

1. Prepares annual federal, state, and local tax returns
2. Reviews and prepares payroll tax returns
3. Prepares quarterly estimates for income tax purposes
4. Advises on tax planning proactively

Note: Give your accountant or CPA a copy of The Millionaire Real Estate Agent so they understand the models.



3. Banker

Develop a relationship with a banker. Consider working with a small local bank where it's easy to walk in and form a relationship. Your banker will help you set up the recommended accounts and credit/loans you'll need for your business.

What your banker does for you:

1. Reviews or develops a business plan
2. Recommends reputable professionals like attorneys and tax advisers

4. Attorney

Choose an attorney who specializes in business and understands real estate.

What your attorney does for you:

1. Prepares documentation related to your business entity
2. Advises you on legal matters concerning your business

5. Insurance Agent

Your insurance agent provides risk management. Consult with your agent and purchase the following different types of insurance—you'll need them all!

1. General liability insurance
2. Errors and omissions (E&O) insurance
3. Auto insurance
4. Health and disability insurance
5. Life insurance
6. Workers compensation insurance (for employees)

6. Financial Planner

A trustworthy financial planner will watch your money and financial investments as well as advise you on retirement planning and estate planning.

7. Coach

A coach holds you accountable to your financial goals and personal goals in a positive and encouraging manner. Consider the many choices offered through KW MAPS Coaching at mapscoaching.kw.com.

Activity – Your Financial Team

Professional	Name	Take Action*
1. Accountant or Bookkeeper		
2. CPA or Tax Adviser		
3. Banker		
4. Attorney		
5. Insurance Agent		
6. Financial Planner		
7. Coach		

**Take Action suggestions:*

- Call a professional you know and schedule an appointment.
- Ask a successful agent in your Market Center who they use and connect with their recommendation.
- Set a date on your calendar to contact a professional and schedule an appointment to arrange for services.
- Replace the person currently in the position.
- Call KW MAPS or find them online and sign up for one of their coaching programs.

Activity – Ask Your Classmate

1. Move around the room and meet three of your classmates.
2. Inquire who is on their financial team and who they would recommend to help you.

Banking

Remember, your payment checks do not go straight into your personal checking account. They are first deposited into your business account.

Set up the following accounts to manage and track your income and expenses and to properly save for taxes, investments, and reserves.

Type of Account		Already Have	Will Set Up
1	Business Checking		
2	Business Savings		
3	Business Credit Card		
4	Tax Savings		
5	Other:		
	Personal Checking		
	Personal Savings		
	Personal Credit Card		
	Investment Savings		

Credit and Debit Cards

Credit cards can be an asset for tracking your expenses. You can easily recap what you're spending and for what, plus you can earn points and travel miles in exchange for a membership fee.

*Caution! Pay your credit card balances off each month.

"Don't finance personal lifestyle."

GARY KELLER, QUANTUM LEAP

Choose Your Business Entity

Real estate is a high-risk business that can sometimes lead to legal trouble. The business entity you choose affects the way you account for income, expenses, and especially taxes, and can legally protect you when things go wrong. It's also about how you report and manage your money.

Important! Consult with your tax adviser and/or attorney when choosing a business entity, preferably one who understands real estate businesses.

- Discuss pros and cons of entity options with your attorney.
- If you choose an entity that has tax consequences, discuss them with your tax adviser.
- Don't rush into a decision until your business is up and running and you can make realistic projections of income and expenses.
- Check with your state's real estate board for any specific requirements that may apply.

Sole Proprietorship

This entity is for an individual business owner—a one-person operation or solo-agent business. This is the default entity.

- Owner receives all profit after taxes.
- Owner has responsibility for all losses and debts.
 - Personal assets may be at stake if the business fails or if the agent is sued for debts unpaid.
- Business income and expenses are report on Schedule C as part of a personal income tax return.

Partnership

Partnerships are popular for real estate businesses. This entity is for two or more owners—partners—with equal ownership, voting rights, and liability.

- Easy to form and typically with no state filing.
- Partners receive profits and each reports their own share of profit or loss on tax returns.
- Partners are equally responsible for all losses and debts.

Limited Liability Company (LLC)

An LLC combines the structure of a corporation with the routine of a partnership. The company can be owned by one person or more than one, and it provides limited liability and the tax advantages of a partnership. You create your LLC by filing documents with your state.

- Shields your personal assets.
- No comingling of business and personal money.
- Owner(s) of LLC may not be personally responsible for business debts.
- Flexible tax reporting options.
- Insurance costs may be less.
- Option to raise money for the business by selling membership interests.
- Option to be taxed like a sole proprietor or a corporation (see **Spotlight On** the following page).
- May increase your professional image, leading to new clientele.

Corporation

A corporate entity is the most common form of a business organization. Consult with your real estate board about the rules for real estate corporations in your state.

- Shields your personal assets
- No comingling of business and personal money

There are two options depending on how you'd like your business to be taxed.

1. S Corp

- "Pass-through entity," meaning the business itself is not taxed.
- Owners pay personal income tax on profits.
- Owners may be treated as employees with a salary.

2. C Corp

- Income is taxed at the corporate level.
- Owners have limited liability; personal assets are protected.
- Owners may be treated as employees with a salary.

Spotlight On ... LLC + S Corp

When agent Monty started his real estate business, he was advised to form an LLC. As the business began to earn more, he was shocked by the amount of taxes he was paying. Monty discussed this with his accountant who recommended that he be taxed like an S corp while keeping his LLC intact. After making this change, Monty began paying himself and his wife a modest salary, and then paid himself a monthly dividend from the extra profits his company was earning. The difference saved him between \$6,000 and \$8,000 in taxes a year.

Activity: Your Business Entity

Entity
Sole Proprietorship
Partnership
LLC
Corporation

Bottom Line

1. Get your financial team in order.
2. Set up your bank accounts to help you manage your business.
3. **Time block!** Get out your calendars and set an appointment to visit your bank to set up your new accounts.

Take Action

List at least ONE action you will take as a result of what you've learned in this chapter.



CONQUER TAXES

In this chapter

- The Taxing Truth
- Deductions and Credits
- Record-keeping

The Taxing Truth

“We have an epidemic ... taxes are due April 15. Wrong!”

TODD BUTZER, MINNEAPOLIS, MINNESOTA

The Big Lie

We all know that taxes are due April 15, right? Not true for business owners like you! April 15 is the date of reconciliation and documentation of what you’ve paid throughout the year. Taxes for sole proprietors, partners, LLCs, and corporations are due **four** times a year. And there are penalties—**harsh penalties**—for not paying on time.

Pay attention to the ever-changing tax laws. Your tax adviser is a valuable partner in helping you stay informed of tax laws.

Tax Due Dates

The truth is *every day is tax day!* **Estimated** taxes are payable on the following dates.

Estimated Tax Due Dates	
For Period	Due Date
January 1 – March 31	April 15
April 1 – May 31	June 15
June 1 – August 31	September 15
September 1 – December 31	January 15 (next year)

Activity: Put Tax Due Dates on Your Calendar

1. Pull out your calendar or phone and enter reminders for these four dates now.
2. Schedule a date to meet with your tax adviser.

Pay Quarterly Estimates on Time

You are required to pay estimated tax each quarter. It's smart to know the approximate amount, save for it ahead of time, and pay it on time.

Use **IRS Form 1040-ES** to calculate estimated taxes and submit payment.*

The tax is based on the following:

- Your earnings
- Deductions depending on marital status
- Spouse's income
- And more

**Note: See your tax adviser for the proper forms to complete and the correct amount to pay each quarter.*

Estimate How Much to Pay

A quick calculation is to save and pay approximately 40 percent of your quarterly income. To calculate your quarterly tax liability, multiply your quarterly income by 0.40.

How much will you pay each quarter (based on current income?) \$_____

Penalties

When you do not pay your estimated taxes on the specified dates, you must pay penalties and interest in addition to the tax you owe.

Extensions

Extensions are only for the detailed paperwork—you must still pay on time!

You can submit the proper IRS form called ***Application for Automatic Extension of Time to File***. There are different forms for the type of business entity you have. When you file an extension, you must still pay the tax due. In addition, you must pay a penalty fee and interest.

Different Types of Tax

“The hardest thing in the world to understand is income tax.”

ALBERT EINSTEIN

Because you don't have an employer withholding tax from your paycheck for you, it's essential that you take care of it yourself. There are three general types of business tax.

- Income Tax
- Self-Employment Tax
- Employment Tax

Income Tax

Income Tax – Federal

All businesses must pay federal income tax annually. The tax you pay is based on what is reported on your 1040 IRS Tax Form.

Income Tax – State

In addition to business taxes required by the federal government, you may have to pay state and local taxes. Each state and locality has its own tax laws.

Nearly every state levies a business or corporate income tax, again, based on the legal structure of your business. For example, if your business is a limited liability company (LLC), the LLC gets taxed separately from the owners, while sole proprietors report their personal and business income taxes using the same form.

Income Tax – City

Certain cities in fourteen states and the District of Columbia require payment of city income tax in addition to state and federal income tax.

Estimated Tax

Depending on your business entity—self-employed, sole proprietor, partner, or S corporation shareholder—and if you expect to owe \$1,000 or more tax, you may have to make estimated tax payments every quarter.

Self-Employment Tax (FICA)

FICA (Federal Insurance Contributions Act) self-employment tax is a Social Security and Medicare tax for individuals who work for themselves and earn \$400 or more. This tax is based on your net business income. You pay 15.3* percent of your net business income up to \$132,900. Then it drops to 2.9* percent for income over \$132,900.

* For 2019

Employment Tax

When you have employees, you must withhold, match, and pay taxes on their behalf that include the following:

- Social Security and Medicare taxes (FICA)
- Federal income tax withholding
- Federal unemployment tax (FUTA)

You hold the deposits in a trust fund until you document and pay the taxes weekly, biweekly, or monthly.

Annual Tax Forms

For Self-Employed/Sole Proprietor/LLC

Use **IRS Schedule C (Form 1040)** to report your income, or loss, from your business.

For Partnerships or Corporations (S Corp)

Use **IRS Schedule K-1 (Form 1065)** to report your income, or loss, from the partnership or corporation. There are different forms for partnerships and corporations so consult with your tax accountant on which form to use.

Activity: Paying Yourself a Salary

The benefit of paying yourself a set dollar amount each month makes financial planning and tax estimating easier. How much will you “pay” yourself each month? And how much will you save for your estimated taxes?

Example:

- Jim’s goal is to pay himself \$140,000 annually.
- Therefore his “pay” will be \$140,000 divided by 12 months, or \$11,667 per month.
- Jim will save for his estimated income tax—about 40 percent, or \$4,667.
- This leaves him with approximately \$7,000 each month for his personal expenses.

Activity: What Will You Pay Yourself?

Calculate what you will pay yourself each month along with how much to save each month for taxes, and how much is left over.

Salary per month	
Save for taxes	
Left for personal expenses	

Pay yourself a reasonable salary and protect the rest of your money!

Deductions and Credits

There is a “plus” side to being taxed, and that is, protection of your income. You **pay less tax** when you properly report deductions and credits. Take full advantage of these “plusses”!

Note: There are many changes due to the Tax Jobs and Cuts Act of 2017 that will affect you in 2018 and beyond. Consult with your tax adviser.

- **Deductions** – reduce your taxable income (*pay less tax!*)
- **Credits** – reduce tax directly (*pay less tax!*)
 - Credits are benefits offered by either the IRS or your state or local government.
 - Review IRS Form 3800 and consult with your tax adviser about credits that may apply in your case.

Deductions

Deductions come from your legitimate business expenses. The IRS allows you to reduce your taxable income by a certain percentage of the expense. It’s important to keep track of what you spend in the course of conducting your business so you can take advantage come tax time.

It’s also critical to know what expenses you can and cannot deduct because only allowable business expenses are deductible. Deductible business expenses must also conform to the rule of “regularly and exclusively” used in the business.

Remember, tax deductions are great. However, tax deductible doesn’t mean free, so don’t incur an expense just because of the deduction.

Activity: Know the Difference—Personal vs. Business Expenses

Indicate which are personal and which are business-related. *Hint: Some may be both.*

	Personal	Business	Both
Accountant fees			
Automobile/Gas/Insurance			
Business cards			
Cell phone			
Clothing			
Computer			
Groceries			
Health insurance			
Home mortgage/rent			
Home office			
Home utilities			
Meals			
Membership in professional organization			
Membership to gym			
Movies/Theater			
Travel to Family Reunion			
Vacation			
Website fees			

Auto Deductions

You may deduct auto expenses when your auto is used for business. However, this doesn't mean you may deduct *all* of your auto expenses. This is because you most likely drive your auto for personal use as well, and this personal use *cannot* be deducted. You must keep track of your business miles so you may deduct the same percentage of your auto expenses.

1. Keep track of miles driven in a year

- January 1 – Write down the odometer reading.
- December 31 – Write down the odometer reading.
- Throughout the year, keep a log of the miles driven for business.
- At the end of the year, you have two numbers:
 - Total miles driven
 - Total miles for business

2. Calculate percentage of business use

Example:

- Mary drove 20,000 miles last year, 15,000 for business.
- Mary used her car 75% of the time for business and 25% for personal use.
 - $15,000 / 20,000 = .75$ or 75%
- Therefore, Mary can deduct 75% of her automobile expenses.

Remember: Unless your car is used *exclusively* for business, you cannot deduct *all* your auto expenses.

Mileage Tracker Apps

Use apps on your smartphone to track business mileage and other business expenses as well. Check out these apps and ask colleagues about their experiences with mileage apps.



- MileIQ



- Hudlr



- QuickBooks Self-Employed

** KWRI does not endorse these products or guarantee their applicability. They are shown here as examples only.*

Keep track of your actual auto expenses using one of two strategies.

1. Apply a standard deduction.
2. Keep track of all your auto expenses to determine your deduction.

1. Apply a standard deduction

- Look up the standard mileage allowance for deductions. (Look it up at www.irs.gov since it changes every year.)
- Multiply the number of business miles by the allowance.

Example 1:

- Mary logged 15,000 business miles.
- Standard mileage allowance is \$0.545 per mile (for tax year 2018).
- $15,000 \times \$0.545 = \$8,175$ auto deduction

2. Keep track of all your auto expenses to determine your deductions

Car payments	\$
Registrations	
Auto insurance	
Repairs/Upkeep	
Gasoline	
Other	
Total	

Example 2:

- Mary spent \$8,000 on auto expenses.
- $\$8,000 \times 75\% = \$6,000$ auto deduction

What about a lease?

You can deduct your lease payment based on the percentage of business use. Consult your tax adviser.

✓	Checklist for Tax Deductions
	Accounting fees
	Advertising
	Automobile
	Bad debts
	Bank charges
	Commissions and sales expenses
	Consultation expenses
	Continuing professional education
	Contract labor
	Credit and collection fees
	Delivery charges
	Dues and subscriptions
	Employee benefit programs
	Equipment rentals
	Gifts
	Home office
	Insurance
	Interest paid
	Internet subscriptions, domain names, and hosting
	Laundry
	Legal fees
	Licenses
	Maintenance and repairs
	Office expenses and supplies
	Pension and profit-sharing plans
	Postage
	Print and copy
	Professional development and training
	Professional fees
	Promotion
	Rent
	Salaries, wages, and other compensation
	Security
	Small tools and equipment
	Software
	Supplies
	Taxes
	Telephone
	Trade discounts
	Travel
	Utilities

Home Office

Can you deduct the use of a home office? Yes, and be aware of tax implications to avoid an audit and having to pay penalties and fines.

The IRS requires that your office at home be used “regularly and exclusively” for your business. This means often and not for personal use. One measure is if you regularly see clients in your home office. Occasional meetings and phone calls do not make it a qualified deduction.

Note: Home office deduction has been greatly reduced with the Tax Jobs and Cuts Act of 2017.

The requirements, recordkeeping, and reporting are far more complex than they used to be. Refer to IRS Publication 587 for more information, and once again, seek counsel from your tax adviser.

Entertainment/Meals

You may deduct up to 50% of business-related entertainment and meals. Good and accurate record-keeping is essential. You must document the clients involved and the business reason, along with receipts.

Business Travel

You may deduct 100% of travel expenses related to your business. Again, excellent and accurate record-keeping is essential.

Keep this deduction in mind as you plan for travel to Family Reunion, Mega Camp, and other training and seminars.

Caution: Do not classify business travel as Entertainment/Meals, which has a 50% cap.

Record-keeping

Keep track of all your business expenses along the way instead of waiting until tax time when you've forgotten or lost receipts. Use a smartphone app to scan, track, and log all your business expenses. See what's available at the Apple App Store or Google Play Store. Check out Everlance, Expensify, Hurdlr, and QuickBooks Self-Employed*, and ask your colleagues who use these about the pros and cons of each.

These time-saving apps use your phone's built-in camera to take photos of your receipts and based on what it "reads" will sort them into categories. Some apps can tell if a receipt is from a restaurant and prompt you for names and business reason.



Everlance



intuit
QuickBooks

** KWRI does not endorse these products or guarantee their applicability. They are shown here as examples only.*

Best Practice for Expansion Agents

Expansion agents may want to track expenses by each expansion location. Are you wondering how to record the expense, that is, to the hub or to the expansion location? Think of it this way:

- If the expansion location went away and the expense still exists, it's a hub expense.
- If the expansion location went away and the expense went away, it's an expansion expense.

Note: For more information on expansion, attend an Expansion Systems Orientation course near you.

Bottom Line

1. Estimate, save for, and pay quarterly taxes on time.
2. Track deductible business expenses and pay less tax.
3. Use a mileage tracking app and a receipt collection app to make tracking expenses easier.

Take Action

List at least ONE action you will take as a result of what you've learned in this chapter.

- _____
- _____
- _____



PLAN AND TRACK YOUR WAY TO SUCCESS

In this chapter

- Goals vs. Actuals
- Two Business Financial Scorecards
- Budget Planning
- Track Your Success

Goals vs. Actuals

GOALS

What you expect to hit. Based on your vision of a Big Life.

ACTUALS

What you actually hit. Based on the activities you engage in.

Plan

Goals are set at the beginning of your planning year using your profit goals and MREA guidelines for your budget.

Track

Actuals are what happen every day, week, month, and year, and are the result of your focused effort on activities.

Look at your goals as non-negotiable. They are your “musts” rather than your “shoulds.” When your actuals match or exceed your goals, you are achieving your Big Dreams!

Two Business Financial Scorecards

The two business scorecards that savvy business people utilize regularly provide snapshots—the score—of your business.

1. Income Statement or Profit and Loss (P&L)
2. Balance Sheet

Profit and Loss		Balance Sheet	
Income	What you make	Assets	What you own
Expense	What you spend	Liabilities	What you owe
Profit	What's left over	Equity	What's left over

Note: This course does not cover details of the Balance Sheet.

“If you can read a nutrition label or a baseball box score, you can learn to read basic financial statements.”

*U.S. SECURITIES AND EXCHANGE COMMISSION
BEGINNERS' GUIDE TO FINANCIAL STATEMENTS*

Profit and Loss (P&L) Statement

A profit and loss statement mirrors your budget and is a snapshot in time of the financial health of your company. In one report, you can view your goals (budget plan) and your actuals (results).

Review this snapshot monthly, quarterly, and annually. Schedule these reviews now!

The MREA P&L

The MREA P&L lists income*, expenses, and profit—what goes in, what goes out, and what’s left over. MREA also defines the percentages of GCI for each of the key operating expense accounts as shown in the table below. Download at kellerink.com.

Account		Monthly	Annually
Income (GCI)			
	Residential/Commercial/Other		
Cost of Sales (MREA: 30% of GCI)			
	Commissions/Royalties		
Operating Expenses (MREA: 30% of GCI)			
	Salaries/Benefits	15.5%	
	Lead Generation	9.6%	
	Education and Coaching	1.5%	
	Occupancy	1%	
	Supplies/Office Expenses	1%	
	Communication/Technology	0.7%	
	Auto/Insurance	0.5%	
	Equipment/Furnishings	0.3%	
Profit (MREA: 40% of GCI)			
	Profit		

Activity: Study a Sample P&L with Budget and Actuals

In groups of 2 or 3, study the following P&L below and discuss the following questions (you may want to use a calculator).

1. Does the **budget** follow the MREA percentage guidelines?
2. Looking at the actual results, did this agent do a reasonable job anticipating income and expenses when creating their budget?
3. What is your advice for this agent for next year?

Profit and Loss Statement		Budget	Actual
Income			
Total Residential Income		\$275,000	\$260,000
Total Commercial Income			\$10,000
Other Real Estate Income			
Total Income (GCI)		\$275,000	\$270,000
Cost of Sales			
Total Commissions Paid Out			\$60,000
Other - COS			
Total Cost of Sales		\$82,500	\$60,000
Gross Profit		\$192,500	\$210,000
Operating Expenses			
Total Salaries/Benefits		\$48,000	\$43,800
Total Lead Generation		\$6,000	\$34,800
Total Education/Coaching		\$6,000	\$13,200
Total Occupancy		\$2,400	\$2,400
Total Supplies/Office Expenses		\$1,200	\$1,200
Total Communication/Technology		\$5,000	\$6,480
Total Automobile/Insurance		\$13,000	\$15,280
Total Equipment/Furnishings			
Total Other Expenses		\$500	\$2,500
Total Expenses		\$82,100	\$119,660
Profit (Net Income)		\$110,400	\$90,340

Activity: Build a Summary P&L Based on Last Month

Build your P&L based on last month's actuals.

- Complete a summary P&L for one month based on your actuals from last month's business.
- Calculate Total Income, Cost of Sales, Total Expenses, and Profit.

Profit and Loss Statement		(month)
Income		
Total Residential Income		
Total Commercial Income		
Other Real Estate Income		
Total Income (GCI)		
Cost of Sales		
Total Commissions Paid Out		
Other - COS		
Total Cost of Sales	30%	
Gross Profit		
Operating Expenses		
Total Salaries/Benefits		
Total Lead Generation		
Total Education/Coaching		
Total Occupancy		
Total Supplies/Office Expenses		
Total Communication/Technology		
Total Automobile/Insurance		
Total Equipment/Furnishings		
Total Other Expenses		
Total Expenses	30%	
Profit (Net Income)	40%	

Understanding the P&L Detail

Each P&L account has subaccounts that further break down the income and expenses.

1. The Income Portion of the P&L

- **Residential Income** – The GCI you make for both listing and buyer sales as well as referral income and any leasing income.
- **Commercial Income**
- **Other Real Estate Income** – Referrals, etc.

Profit and Loss Statement for Period Ending -		(month/year)
Income		
Residential Income		
Listing Income		
Sales Income		
Referral Income		
Leasing Income		
Total Residential Income		\$
Commercial Income		
Listing Income		
Sales Income		
Referral Income		
Leasing Income		
Total Commercial Income		\$
Other Real Estate Income		
Total Income (GCI)		\$

Activity – Other Real Estate Income: Referrals

Are you using Kelle and My Referrals to maximize your Other Real Estate Income? Set a referral income goal, build your referral network, then connect with your network to offer and receive referrals!

- On your phone or laptop, access My Referrals and add ten of your classmates to your referral network now!
- Set a referral income goal for the year.
 - Goal for number of referrals received: _____
 - Goal for number of referrals sent: _____

2. Cost of Sales Expense Portion of the P&L

- **Commissions Paid Out** – Consists of the commission split paid to a listing or buyer specialist.
- **Other - COS**

Cost of Sales		
Commissions Paid Out		
Commissions to Office		
Royalties Paid		
Listing COS		
Buyer COS		
Other - Commissions Paid Out		
Total Commissions Paid Out		\$
<hr/>		
Other - COS		
Total Cost of Sales		\$
Gross Profit		\$

3. Operating Expense Portion of the P&L

- **Salaries/Benefits** – Includes what you “pay” yourself, along with what you pay to employees. Also includes the cost of benefits you provide, payroll taxes, and processing.
- **Lead Generation** – All expenses related to your lead generation efforts.

Expenses		
Salaries/Benefits		
Salaries		
Management		
Administration		
Other - Salaries		
Total Salaries		\$
Benefits/Processing		
Benefits		
Payroll Processing		
Payroll Taxes		
Other - Benefits/Processing		
Total Benefits/Processing		\$
Contract Labor		
Total Salaries/Benefits		\$
Lead Generation		
Advertising		
Print/Direct Mail		
Internet Lead Generation		
Entertainment/Other		
Other - Lead Generation		
Total Lead Generation		\$

Operating Expense Portion of the P&L (continued)

- **Education/Coaching** – MLS and NAR dues, Family Reunion, Masterminds, Mega Camp, any books or subscriptions, and coaching.
- **Occupancy** – Includes rent and utilities for your office.
- **Supplies/Office Expenses**

Education/Coaching		
Education/Training		
Coaching/Consulting		
Books/Audio-Visual/Subscriptions		
Dues		
Other - Education/Dues		
Total Education/Coaching		\$
Occupancy		
Rent/Desk Fees		
Utilities		
Repair/Maintenance		
Depreciation of Capital Improvements		
Other - Occupancy		
Total Occupancy		\$
Supplies/Office Expenses		
Banking Charges		
Office Supplies (consumables)		
Office Operations		
Other - Supplies/Office Expenses		
Total Supplies/Office Expenses		\$

Operating Expense Portion of the P&L (continued)

- **Communication/Technology** – All your phone and internet expenses.
- **Automobile/Insurance** – Expenses associated with your car and driving for business, car payment, gas, repairs, insurance, plus other insurance for your business.
- **Equipment/Furnishings** – Computers, copiers, and office furnishings.

Communication/Technology		
Telephone Services		
Answering Services		
Internet Service Provider/Hosting Charges/Email		
IVR Service		
Website Creation		
Website Maintenance		
Other - Communication/Technology		
Total Communication/Technology		\$
Automobile/Insurance		
Mileage or Interest Portion of Payment or Percentage of Lease		
Depreciation		
Gas		
Maintenance		
Other - Automobile		
Total Automobile		\$
Equipment/Furnishings		
Rental		
Depreciation of Capitalized Equipment/Furnishings		
Repair/Maintenance		
Property Tax on Equipment/Furnishings		
Other - Equipment/Furnishings		
Total Equipment/Furnishings		\$

Operating Expense Portion of the P&L (continued)

- **Other Expenses**

Other Expenses	
Charitable Contributions	
Loan/Interest Payment	
Office Transaction Fees Paid	
State Sales/Franchise Taxes	
Other - Other Expenses	
Total Other Expenses	\$
Total Expenses	\$
Business Profit	\$

Activity: Case Study – Annie’s P&L

The following P&L tells the story of Annie Agent. Review her P&L in groups of three and answer the questions on the case study questions about Annie’s financial health.

Profit and Loss Statement for Period Ending -		(Annual)	
Income			% of GCI
Residential Income			
Listing Income	\$125,000		
Sales Income	\$125,000		
Referral Income	\$ 10,000		
Leasing Income			
Total Residential Income		\$260,000	
Commercial Income			
Listing Income			
Sales Income			
Referral Income	\$10,000		
Leasing Income			
Total Commercial Income		\$10,000	
Other Real Estate Income			
Total Income (GCI)		\$270,000	
Cost of Sales			
Commissions Paid Out			
Commissions to Office	\$24,000		
Royalties Paid	\$6,000		
Listing COS			
Buyer COS	\$30,000		
Other - Commissions Paid Out			
Total Commissions Paid Out		\$60,000	
Other - COS			
Total Cost of Sales		\$60,000	22%
Gross Profit		\$210,000	
Expenses			
Salaries/Benefits			
Salaries - Owner			
Management			
Administration	\$40,000		
Other - Salaries			
Total Salaries		\$40,000	
Benefits/Processing			
Benefits			
Payroll Processing	\$600		
Payroll Taxes	\$3,200		

Other - Benefits/Processing		
Total Benefits/Processing		\$3,800
Contract Labor		
Total Salaries/Benefits		\$43,800
Lead Generation		
Advertising	\$12,000	
Print/Direct Mail	\$3,000	
Internet Lead Generation	\$4,800	
Entertainment/Other	\$15,000	
Other - Lead Generation		
Total Lead Generation		\$34,800
Education/Coaching		
Education/Training	\$6,000	
Coaching/Consulting	\$6,000	
Books/Audio-Visual/Subscriptions		
Dues	\$1,200	
Other - Education/Dues		
Total Education/Coaching		\$13,200
Occupancy		
Rent/Desk Fees	\$2,400	
Utilities		
Repair/Maintenance		
Depreciation of Capital Improvements		
Other - Occupancy		
Total Occupancy		\$2,400

Supplies/Office Expenses	
Banking Charges	
Office Supplies (consumables)	\$1,200
Office Operations	
Other - Supplies/Office Expenses	
Total Supplies/Office Expenses	\$1,200
Communication/Technology	
Telephone Services	\$3,000
Answering Services	
Internet Service Provider/Hosting Charges/Email	\$60
IVR Service	\$1,200
Website Creation	
Website Maintenance	\$1,800
Other - Communication/Technology	\$420
Total Communication/Technology	\$6,480
Automobile/Insurance	
Mileage/Interest Payment on Lease	\$10,000
Depreciation	\$2,880
Gas	\$400
Maintenance	
Other - Automobile	
Automobile Insurance	\$1,800
Error & Omissions	\$100
Property/Liability	\$1,000
Other - Insurance	
Total Automobile/Insurance	\$16,180

Equipment/Furnishings		
Rental		
Depreciation of Capitalized Equipment/Furnishings		
Repair/Maintenance		
Property Tax on Equipment/Furnishings		
Other - Equipment/Furnishings		
Total Equipment/Furnishings		\$
Other Expenses		
Charitable Contributions	\$2,500	
Loan/Interest Payment		
Office Transaction Fees Paid		
State Sales/Franchise Taxes		
Other - Other Expenses		
Total Other Expenses	\$2,500	
Total Expenses	\$120,560	45%
Business Profit	\$89,440	33%

Case Study Questions – prepare to discuss as a class

1. How does Annie's Cost of Sales compare to MREA guidelines? How would you advise her?
2. How does her Operating Expenses compare to MREA guidelines? How would you advise her?
3. What is Annie paying herself? How does this compare to MREA guidelines?
4. What if Annie had accounted for her pay as salary? How would this affect her Operating Expenses?
5. Would you advise her to account for her pay as an expense? Why/Why not?
6. Where could Annie watch her expenses more carefully?
7. Calculate how much Annie is spending on lead generation compared to the GCI she's getting as a result. What is the percentage: Lead Gen / GCI? How would you advise her?

Budget Planning

*"I've got all the money I'll ever need
if I die by four o'clock this afternoon."*

HENNY YOUNGMAN

Don't be like Henny! Planning is smart business and this means having a grip on both personal and business expenses.

1. Personal Budget
2. Business Budget

Your Personal Budget

Begin with your personal budget. Use online banking tools to classify your spending into different categories, allowing you to determine quickly where your money is going.

Avoid These Traps

- Spending more than you make
- Spending all that you make

Once you've established a budget, stick to it and avoid impulse buying!

Personal Budget Worksheet

Item	\$	Item	\$		\$
Charitable Giving		Home/Apartment		Retirement	
Child Care		• Mortgage/Rent		• Financial Planning	
Clothing		• Property Taxes		• Investing	
• Adults		• Household Repairs		Savings	
• Children		• HOA Dues		• Emergency Fund	
Debt Reduction		Household Items/Supplies		• Other Savings	
• Mortgage		• Toiletries		Transportation	
• Credit Card		• Cleaning Supplies		• Auto Payment	
• Personal Loan		• Tools		• Fuel	
• Student Loan		Income Taxes - Personal		• Tires	
Education		Insurance		• Oil Changes	
• Children's College		• Health		• Maintenance	
• Your College		• Homeowner's		• Parking Fees	
• Books and School Supplies		• Renter's		• Bus and Train Fares	
• Conferences		• Auto		• Repairs	
Food for Family and Pets		• Life		• DMV Fees	
• Groceries		• Disability		• Vehicle Replacement	
• Restaurants		• Identity Theft Protection		Utilities	
• Pet Food/Treats		• Long-term Care		• Electricity	
Fun Money		Medical		• Water	
• Entertainment		• Primary Care		• Heating	
• Games		• Dental Care		• Garbage	
• Eating Out		• Specialty and Elective Care		• Phones	
• Spontaneous Giving		• Medications		• Cable/Internet	
• Vacations		• Medical Devices		•	
• Subscriptions		Personal		•	
Gifts		• Gym Memberships		•	
• Birthday		• Haircuts		•	
• Anniversary		• Babysitter		•	
• Wedding		• Child Support		•	
• Christmas		• Alimony		•	

Activity: Live Below Your Means

- Write down at least ONE way you can reduce your personal spending.

- Write down at least ONE way you can increase your savings.

"The saving man becomes the free man."

CHINESE PROVERB

Your Business Budget

Now that you have a greater understanding of the MREA P&L and Chart of Accounts, along with your personal budget needs, you will put together a budget for your business for the upcoming year (or 12 months). Use the MREA Chart of Accounts whether you're a solo agent, have one or more part-time assistants, or run a team.

Example – Lead Generation

Each account of the MREA Chart of Accounts and P&L has a detailed breakdown so you can track expenses for tax purposes. Here's sample detail with subaccounts for one account—Lead Generation.

Account	Amount	Total
Lead Generation		
Advertising	\$12,000	
Print/Direct Mail	\$3,000	
Internet Lead Generation	\$4,800	
Entertainment/Other	\$15,000	
Other Lead Generation	\$0	
Total Lead Generation		\$34,800

Make the Most of Your Database

You can certainly pay for leads as many agents do. However, think about the value and the low cost of simply building up your business database and connecting with it frequently, as prescribed in MREA. This can dramatically reduce your lead generation expense.

Make the Most of Hired Help

When you're ready to get help with lead generating, take the KW Leverage Series, including Career Visioning and 30-60-90, to ensure you hire top talent. You'll be adding expense in the form of COS or salaries, but with the right person or people, you can be rewarded with a great return on your investment!

Activity: Build a Detailed Budget

On the following pages, enter estimates for each of the following MREA expense accounts and subaccounts based on your previous year’s actual expenses. Use monthly estimates and multiply by 12 to get annual values.

Budget Worksheet for Year:	
Expenses	Annual Budget
Salaries/Benefits	
Salaries	
Management	
Administration	
Other - Salaries	
Total Salaries	
Benefits/Processing	
Benefits	
Payroll Processing	
Payroll Taxes	
Other - Benefits/Processing	
Total Benefits/Processing	
Contract Labor	
Total Salaries/Benefits	
Lead Generation	
Advertising	
Print/Direct Mail	
Internet Lead Generation	
Entertainment/Other	
Other - Lead Generation	
Total Lead Generation	
Education/Coaching	
Education/Training	
Coaching/Consulting	
Books/Audio-Visual/Subscriptions	
Dues	
Other - Education/Dues	
Total Education/Coaching	

(Continued on the next page.)

Expenses	Annual Budget	
Occupancy		
Rent/Desk Fees		
Utilities		
Repair/Maintenance		
Depreciation of Capital Improvements		
Other - Occupancy		
Total Occupancy		
Supplies/Office Expenses		
Banking Charges		
Office Supplies (consumables)		
Office Operations		
Other - Supplies/Office Expenses		
Total Supplies/Office Expenses		
Communication/Technology		
Telephone Services		
Answering Services		
Internet Service Provider/Hosting Charges/Email		
IVR Service		
Website Creation		
Website Maintenance		
Other - Communication/Technology		
Total Communication/Technology		
Automobile/Insurance		
Mileage or Interest Portion of Payment or Percentage of Lease		
Depreciation		
Gas		
Maintenance		
Other - Automobile		
Automobile Insurance		
Error & Omissions		
Property/Liability		
Other - Insurance		
Total Automobile/Insurance		

(Continued on the next page.)

Expenses	Annual Budget	
Equipment/Furnishings		
Rental		
Depreciation of Capitalized Equipment/Furnishings		
Repair/Maintenance		
Property Tax on Equipment/Furnishings		
Other - Equipment/Furnishings		
Total Equipment/Furnishings		
Other Expenses		
Charitable Contributions		
Loan/Interest Payment		
Office Transaction Fees Paid		
State Sales/Franchise Taxes		
Other - Other Expenses		
Total Other Expenses		
Total Expenses		

Care for Your Budget

The Millionaire Real Estate Agent advises you to care for your budget in three ways.

1. **Lead with revenue** – Spend only the money the business has generated; that is, spend it after you’ve made it.
2. **Play Red Light, Green Light** – Hold your money accountable for results. Keep your fixed expenses like rent and salaries as low as possible.
3. **Stick to your budget** – Determine how you will spend your money in the business, then watch your expenses and stay on track.

Activity: Which Account?

Pair up and refer to the MREA P&L Statement in the Appendix to determine the proper account to code each of the following expenses.

1. You received your monthly agent bill from your Market Center. It includes:
 - a. \$25 for technology fee _____
 - b. \$100 for car maintenance _____
 - c. \$75 for monthly MLS access _____
 - d. \$54 for printer copies _____
 - e. \$100 for newspaper ads _____

2. You just returned from Family Reunion with the following credit card receipts:
 - a. \$375 for meals _____
 - b. \$450 for travel _____
 - c. \$600 for hotel _____
 - d. \$125 for a suit for yourself _____
 - e. \$125 for marketing materials _____

Track Your Success

You're learning that you have powerful tools to track your goals and actuals.

1. MREA P&L
2. Agent Trend Report

1. MREA P&L

This tool tracks your success by comparing your actual (activities) to your budget (goals).

Profit and Loss Statement	Budget	Actual
Income		
Total Residential Income	\$275,000	\$260,000
Total Commercial Income		\$10,000
Other Real Estate Income		
Total Income (GCI)	\$275,000	\$270,000
Cost of Sales		
Total Commissions Paid Out		\$60,000
Other - COS		
Total Cost of Sales	\$82,500	\$60,000
Gross Profit	\$192,500	\$210,000
Operating Expenses		
Total Salaries/Benefits	\$48,000	\$43,800
Total Lead Generation	\$6,000	\$34,800
Total Education/Coaching	\$6,000	\$13,200
Total Occupancy	\$2,400	\$2,400
Total Supplies/Office Expenses	\$1,200	\$1,200
Total Communication/Technology	\$5,000	\$6,480
Total Automobile/Insurance	\$13,000	\$15,280
Total Equipment/Furnishings		
Total Other Expenses	\$500	\$2,500
Total Expenses	\$82,100	\$119,660
Profit (Net Income)	\$110,400	\$90,340

2. Agent Trend Report

Your monthly Agent Trend Report is a great tool in your business arsenal. It contains trends and results of your activities to keep you focused on your ONE Thing.

What is your ONE Thing?

Agent Trend Report

Multi-Year Trends

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Year
2012	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2013	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2014	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2015	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2016	11.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0

1. Closed Units
2. Closed Sales Volume
3. Listings Taken
4. Listings Taken Volume
5. Listings Sold
6. Listings Sold Volume
7. Contracts Written
8. Contracts Written Volume

Your Agent Trend Report provides monthly results on the eight critical levers of your business—known as the Language of Real Estate. In addition, the Multi-Year Trends gives results for:

- Appointments
- Buy Sales Closed and Closed Volume
- Lease Closed Units and Closed Volume
- Gross Commission Income (GCI)
- Company Dollar
- 1099 Income
- Royalty
- Ignite myTracker Activities and Milestones

Activity: Schedule Your Agent Trend Report for Each Month

- Access your Agent Trend Report now if you have access to your computer.
- Schedule to pull your Agent Trend Report around the 6th of each month. Put these dates in your calendar with reminders now! Include the link to the report to make it easy!
- What numbers will you check each month? List the top 2 from the previous page.

Bottom Line

1. Commit to your goal—it's your path to profit and your Big Life.
2. Embrace the power of financial statements.
3. Get your personal budget in shape.
4. Determine your business budget.
5. Keep advancing your knowledge and skills with KW training and coaching.

Take Action

List at least ONE action you will take as a result of what you've learned in this chapter.

1. _____
2. _____
3. _____



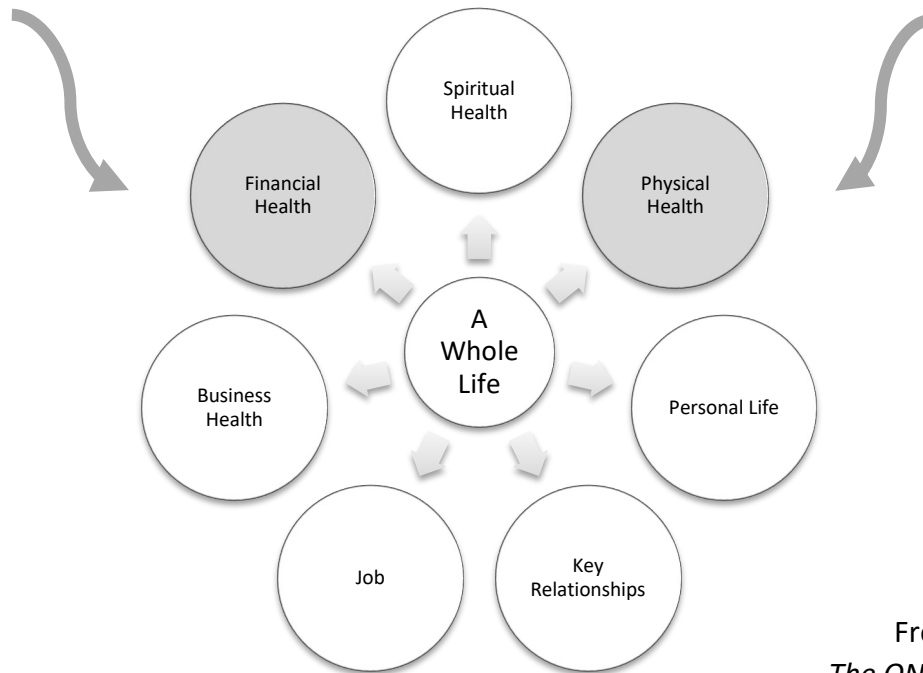
MIND YOUR FUTURE

In this chapter

- Health Check
- Build Your Future Now

Health Check

Your **financial health** is one of the key aspects of a successful life, yet it is meaningless if any of your other categories of health are not in great shape.



Consider physical health, for example. Do you identify with any of the following stressors that may affect your physical health?

- Being on the go all the time with no time to eat, relax, exercise, etc.
- Eating fast food instead of healthy food
- Spending long hours in the car
- Dealing with emotions of stressed clients
- Difficulty balancing family with work
- Having to look great at all times
- Safety concerns during meetings, open houses, and showings
- Concerns about closings and paying bills

If You Become Incapacitated or Disaster Strikes

- Who would keep your business running?
- How long could your family survive with reduced or no income?

What are some solutions?

- Purchase Disability Insurance – both short term and long term.
- Train your spouse or licensed assistant to carry your business forward.
- Save for a six-month reserve.
- Partner with another agent in your Market Center—if they get ill, you cover their business, and vice versa.
- Build for a future now.
- _____
- _____
- _____

Build Your Future Now

“When I was young, I used to think that money was the most important thing in life. Now that I am old, I know it is!”

OSCAR WILDE

1. Establish Savings Plans

Not only will you want to consider disability insurance and a reserve for when things go wrong, you will want to prepare for your retirement, or next phase of life or adventure, now.

Discuss the following options with a financial planner and begin to build your future today!

Don't wait. As the Chinese proverb proclaims, “The best time to plant a tree was twenty years ago. The second best time is now.”

- IRA
- Self-directed IRA
- Pension (SEP IRA)
- 401(k)
- MSA – medical savings account
- HSA – health savings account
- 529 plan – college savings plan
- _____
- _____
- _____

2. Grow Your Profit Share Tree

KW PROFIT SHARE

A program that rewards you simply for helping KW grow; Profit Share offers unlimited earning potential and zero risk.

Profit Share gives you the power to **exceed** your profit goals. Growing your Profit Share Tree creates additional income to fund your hopes and dreams.

Engaging in the activities to grow your Profit Share Tree doesn't have to take away from the time you spend achieving your profit goals. Look for opportunities to connect with other agents while you are achieving your financial goals.

The Big Picture of Profit Share

1. An associate joins any Market Center in Keller Williams and names you as their sponsor.
2. In a particular month, as part of their split, they pay Company Dollar to their Market Center.
3. During that month, the Market Center is profitable.
4. On the 21st of the following month, some of the Market Center's profit is automatically deposited to your account.

Special Note: You are not getting a portion of the associate's commission. You are sharing in the owner's profits.

5. When you've been a Keller Williams associate for three years and a day, you are vested. When you are vested, you could leave Keller Williams and still receive Profit Share.
6. You can will your Profit Share to a beneficiary.

Experience 100 Percent-Plus

Profit Share gives you the opportunity to earn more than the commission split you pay, allowing you to earn more than if you were on a 100 percent split. Think of this as having profit share cover your annual cap and royalty fees! We call this, “100 Percent-Plus.”

Get Involved

Attend the “Grow Your Profit Share Tree” course when offered in your Market Center or near you. Invite other real estate agents you work with to learn about KW so they choose to join you and the KW family.

Look for when and where classes are held by searching KWConnect.com for “Grow Your Profit Share Tree” and clicking on List of Upcoming Courses.

What about Growth Share?

Growth Share is the residual income paid to Keller Williams associates who help grow the company outside of the United States and Canada. Unlike the Profit Share model, the associates who participate enjoy a portion of their Region’s bottom line, rather than that of the Market Center. Any Keller Williams associate can participate in and reap the rewards of both Growth Share and/or Profit Share.

Activity: Who Do You Know?

Take a moment to jot down people you can invite to learn more about Keller Williams. (e.g., co-op agents and agents known to you, or friends and family from around the world.) Remember, you are essentially saying “no” to every person you don’t consider! Call or write to them soon after the class and refer them to your Team Leader.

- _____
- _____
- _____

3. Put Your Expertise in Real Estate to Work for You!

Keller Williams has resources to guide you in investing in real estate. Begin by purchasing your own home and working to own it free and clear. Build a portfolio of real estate investments that provides an income to protect you during tough times and retirement.

Utilize KW books such as *The Millionaire Real Estate Investor*, *HOLD*, and *FLIP* along with the “Spotlight on Wealth Building” course to put your real estate expertise to work for you!

4. Follow the MREA Model to Build a Team

An MREA team at the 7th Level is a model for a successful business that doesn't depend on your day-to-day involvement, so you may want to consider it as part of your future plan. It requires a strong business built with strategic systems and models. Learn more about building an MREA team through the Leverage Series of classes on KWConnect.com.

The 1st Level



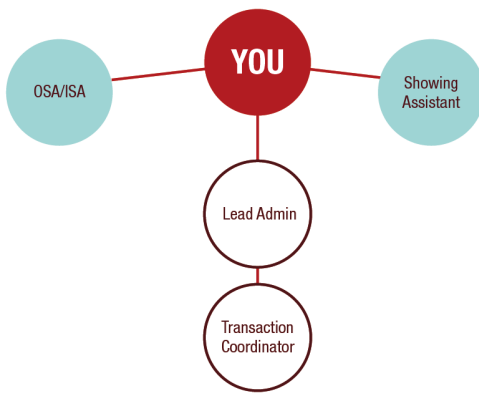
The 2nd Level



The 3rd Level



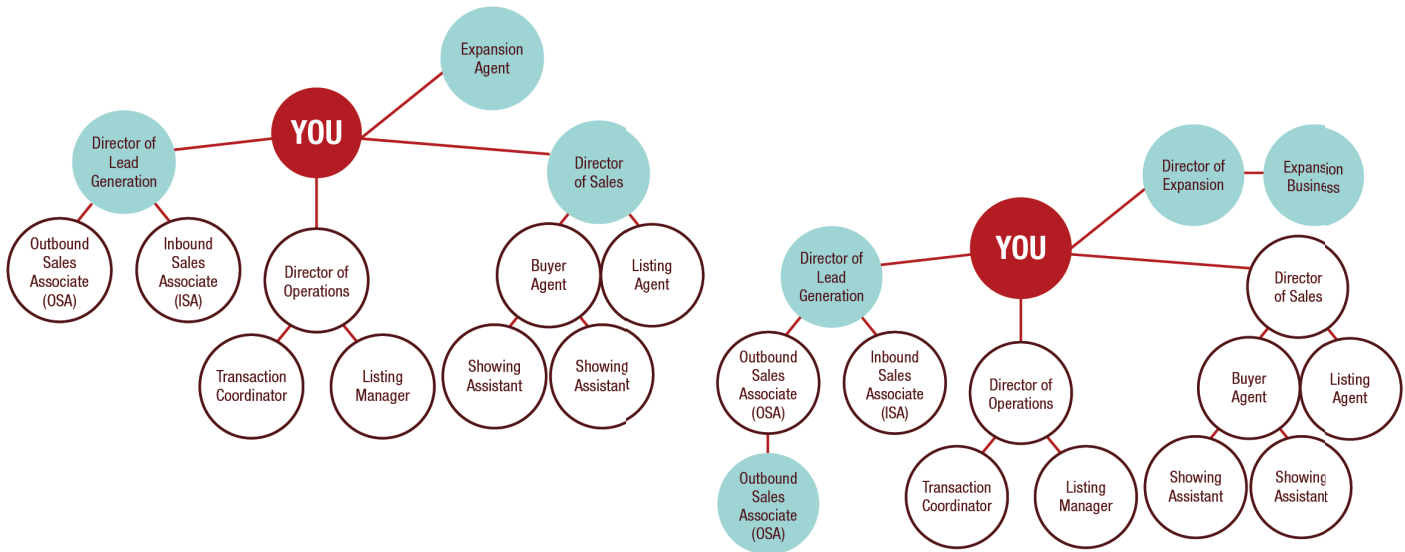
The 4th Level



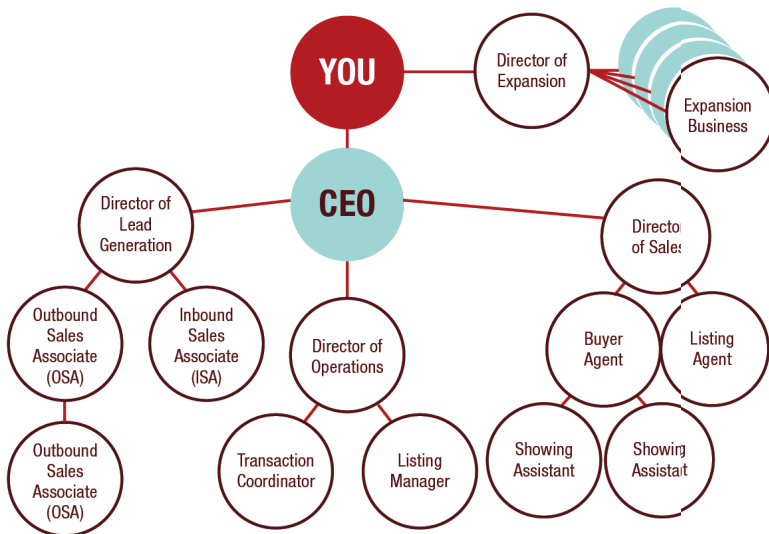
The 5th Level



The 6th Level



The 7th Level



Bottom Line and Take Action!

Summarize what you've learned from the entire course into action steps and indicate which steps are completed and which ones you'll act on by when.

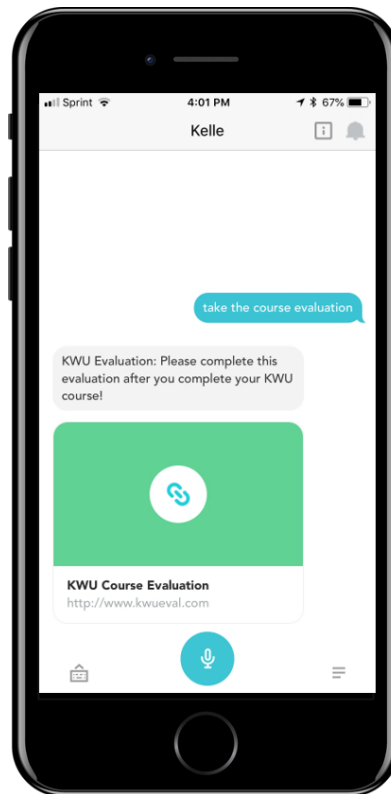
	Action Steps	Done	Date of Completion	Who Will Hold You Accountable?
1	Gain clarity on your Big Life hopes and dreams			
2	Set your personal and business budgets			
3	Set up your business entity			
4	Open up additional bank accounts for expenses, taxes, and other savings accounts			
5	Download and use the MREA Chart of Accounts			
6	Purchase/Download tax accounting software			
7	Hire an accountant, CPA, attorney			
8	Download your Agent Trend Report monthly			
9	Set up a simple system to track business expenses			
10	Complete your P&L each month			
11	Set aside time each month to review your financials			
12	Set an annual appointment to create your budget			
13	Set dates to calculate and pay your estimated taxes			
14	Download IRS Schedule C and review it			
15	Prepare for your future: insurance, savings, investments in real estate, Profit Share Tree, building a team			
16	Reduce/Eliminate consumer debt			
17	Sign up for KW MAPS Group Coaching			

Congratulations ... you're done!

As with every course you attend, we suggest you take action and implement these steps as soon as possible.

Thank you for attending this course! Please complete the evaluation.

1. Open Kelle.
2. Type or say, "Take the course evaluation"
3. Tap **the link**.
4. Select the Course and Instructor.
5. Share your feedback.



THANK YOU!

APPENDIX

- MREA P&L
- Financial Fitness Assessment
- Your Financial Team
- Your Bank Accounts
- Your Business Entity
- Tax Due Dates
- Tax Deductions
- Personal Budget Worksheet
- Your Action Plan

MREA P&L

Profit and Loss Statement for Period Ending -		(month/year)
Income		
Residential Income		
Listing Income		
Sales Income		
Referral Income		
Leasing Income		
Total Residential Income		\$
Commercial Income		
Listing Income		
Sales Income		
Referral Income		
Leasing Income		
Total Commercial Income		\$
Other Real Estate Income		
Total Income (GCI)		\$

Cost of Sales		
Commissions Paid Out		
Commissions to Office		
Royalties Paid		
Listing COS		
Buyer COS		
Other - Commissions Paid Out		
		\$
Total Commissions Paid Out		
Other - COS		
Total Cost of Sales		\$
Gross Profit		\$

Expenses		
Salaries/Benefits		
Salaries		
Management		
Administration		
Other - Salaries		
Total Salaries		\$
Benefits/Processing		
Benefits		
Payroll Processing		
Payroll Taxes		
Other - Benefits/Processing		
Total Benefits/Processing		\$
Contract Labor		
Total Salaries/Benefits		\$
Lead Generation		
Advertising		
Print/Direct Mail		
Internet Lead Generation		
Entertainment/Other		
Other - Lead Generation		
Total Lead Generation		\$

Education/Coaching		
Education/Training		
Coaching/Consulting		
Books/Audio-Visual/Subscriptions		
Dues		
Other - Education/Dues		
Total Education/Coaching		\$
Occupancy		
Rent/Desk Fees		
Utilities		
Repair/Maintenance		
Depreciation of Capital Improvements		
Other - Occupancy		
Total Occupancy		\$
Supplies/Office Expenses		
Banking Charges		
Office Supplies (consumables)		
Office Operations		
Other - Supplies/Office Expenses		
Total Supplies/Office Expenses		\$

Communication/Technology	
Telephone Services	
Answering Services	
Internet Service Provider/Hosting Charges/Email	
IVR Service	
Website Creation	
Website Maintenance	
Other - Communication/Technology	
Total Communication/Technology	\$
Automobile/Insurance	
Mileage or Interest Portion of Payment or Percentage of Lease	
Depreciation	
Gas	
Maintenance	
Other - Automobile	
Total Automobile	\$
Equipment/Furnishings	
Rental	
Depreciation of Capitalized Equipment/Furnishings	
Repair/Maintenance	
Property Tax on Equipment/Furnishings	
Other - Equipment/Furnishings	
Total Equipment/Furnishings	\$

Other Expenses	
Charitable Contributions	
Loan/Interest Payment	
Office Transaction Fees Paid	
State Sales/Franchise Taxes	
Other - Other Expenses	
Total Other Expenses	\$
Total Expenses	\$
Business Profit	\$

Financial Fitness Assessment

	Do you ...	Yes	No	Some- times
1	Have a stated profit goal for the year?			
2	Use a written budget for your business?			
3	Use a Profit and Loss (Income) Statement and review it monthly?			
4	Have separate business and personal checking accounts and credit cards?			
5	Contribute to a tax savings account regularly?			
6	Pay estimated taxes each quarter?			
7	Have a tax adviser /CPA?			
8	Track your business miles driven?			
9	Keep receipts for your business expenses?			
10	Pay yourself a regular salary?			
11	Use <i>The Millionaire Real Estate Agent</i> (MREA) chart of accounts?			
12	Know how your margins compare with MREA?			
13	Know the average cost of each of your transactions?			
14	Know what it costs your business even if you make no money?			
15	Have an active profit share tree?			
16	Have a solid plan in place for your financial future?			
17	Have no outstanding consumer debt?			

Your Financial Team

Professional	Name	Take Action*
1. Accountant or Bookkeeper		
2. CPA or Tax Adviser		
3. Banker		
4. Attorney		
5. Insurance Agent		
6. Financial Planner		
7. Coach		

Your Bank Accounts

Type of Account		Already Have	Will Set Up
1	Business Checking		
2	Business Savings		
3	Business Credit Card		
4	Tax Savings		
5	Other:		
	Personal Checking		
	Personal Savings		
	Personal Credit Card		
	Investment Savings		

Your Business Entity

Entity
Sole Proprietorship
Partnership
LLC
Corporation

Tax Due Dates

Estimated Tax Due Dates	
For Period	Due Date
January 1 – March 31	April 15
April 1 – May 31	June 15
June 1 – August 31	September 15
September 1 – December 31	January 15 (next year)

Tax Deductions

✓	Checklist for Tax Deductions
	Accounting fees
	Advertising
	Automobile
	Bad debts
	Bank charges
	Commissions and sales expenses
	Consultation expenses
	Continuing professional education
	Contract labor
	Credit and collection fees
	Delivery charges
	Dues and subscriptions
	Employee benefit programs
	Equipment rentals
	Gifts
	Home office
	Insurance
	Interest paid
	Internet subscriptions, domain names, and hosting
	Laundry
	Legal fees
	Licenses
	Maintenance and repairs
	Office expenses and supplies
	Pension and profit-sharing plans
	Postage
	Print and copy
	Professional development and training
	Professional fees
	Promotion
	Rent and Utilities
	Salaries, wages, and other compensation
	Security
	Small tools and equipment
	Software
	Supplies
	Taxes
	Telephone
	Trade discounts
	Travel

Personal Budget Worksheet

Item	\$	Item	\$	Item	\$
Charitable Giving		Home/Apartment		Retirement	
Child Care		• Mortgage/Rent		• Financial Planning	
Clothing		• Property Taxes		• Investing	
• Adults		• Household Repairs		Savings	
• Children		• HOA Dues		• Emergency Fund	
Debt Reduction		Household Items/Supplies		• Other Savings	
• Mortgage		• Toiletries		Transportation	
• Credit Card		• Cleaning Supplies		• Auto Payment	
• Personal Loan		• Tools		• Fuel	
• Student Loan		Income Taxes - Personal		• Tires	
Education		Insurance		• Oil Changes	
• Children's College		• Health		• Maintenance	
• Your College		• Homeowner's		• Parking Fees	
• Books and School Supplies		• Renter's		• Bus and Train Fares	
• Conferences		• Auto		• Repairs	
Food for Family and Pets		• Life		• DMV Fees	
• Groceries		• Disability		• Vehicle Replacement	
• Restaurants		• Identity Theft Protection		Utilities	
• Pet Food/Treats		• Long-term Care		• Electricity	
Fun Money		Medical		• Water	
• Entertainment		• Primary Care		• Heating	
• Games		• Dental Care		• Garbage	
• Eating Out		• Specialty and Elective Care		• Phones	
• Spontaneous Giving		• Medications		• Cable/Internet	
• Vacations		• Medical Devices		•	
• Subscriptions		Personal		•	
Gifts		• Gym Memberships		•	
• Birthday		• Haircuts		•	
• Anniversary		• Babysitter		•	
• Wedding		• Child Support		•	
• Christmas		• Alimony		•	

Your Action Plan

	Action Steps	Done	Date of Completion
1	Set your personal and business budgets		
2	Set up your business entity		
3	Open up additional bank accounts for expenses, taxes, and other savings accounts		
4	Download and use the MREA Chart of Accounts		
5	Purchase/download tax accounting software		
6	Hire an accountant, CPA, attorney		
7	Download your Agent Trend Report		
8	Set up a simple system to track business expenses		
9	Complete your P&L each month		
10	Set aside time each month to review your financials		
11	Set an annual appointment to create your budget		
12	Set dates to calculate and pay your estimated taxes		
13	Download IRS Schedule C and review it		
14	Prepare for your future: insurance, savings, investments in real estate, Profit Share Tree, building a team		
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