

TAX SAVING SECRETS FOR REALTORS

And How to Put More
Money in Your Pocket



WHO IS TRUDY HOWARD, AFSP

- Tax accountant listed on **Directory of Federal Tax Return Preparers with Credentials and Select Qualifications**
- Mom of a 24 year old, & grandma to the sweetest 21 month old baby boy.
- Year round tax specialist with concentration on business returns.
- Specialized training in tax reduction, and tax debt resolution.
- Tax savings blog owner www.smallbiztaxlady.net
- Podcast owner (Iheart radio, Itunes, & More) smallbiztaxlady
- Specializes in most tax aspects regarding real estate
 - Brokers/Realtors.
 - Property Managers.
 - Investors who buy and hold.
 - Investors who flip properties.
 - Landlords of one or more rental properties (short and long-term).
 - New home owners.
 - Prospective buyers.



DOES PAYING TAXES MAKE YOU NOT SLEEP WELL AT NIGHT?

- **Does the thought of paying 30%, 40%, or higher in taxes on your hard earned income make you sick?**
 - I am going to show you a way to reduce your overall tax bill
- **Does your roller coaster income give you heartache with all the bills to pay and you have not considered paying taxes yet?**
 - I am going to show you how to level out your income and help you pay something in toward your year-end tax bill
- **Is your ability to get paid held up because your seller has a federal tax lien or your buyer has unfiled returns?**
 - I will show you what needs to be done to make the process happen faster

WHAT TAXES ARE YOU RESPONSIBLE FOR?

- ❖ Income tax – a tax that you pay to the United States government on the money that you were allowed to earn in the United states.
- ❖ Self employment taxes-Medicare & Social security taxes that you pay the United States government in anticipation of getting older & needing healthcare, & a supplemental paycheck called “social security.”
- ❖ State income tax—The taxes you pay a state for earning your money inside of their state.
- ❖ There are many other taxes such as: retail sales tax (for those that sale tangible items), excise taxes (taxes on specific items like fuel, tobacco, alcohol, etc.) Futa, Suta, Employer taxes for those that hire others & pay them on a W2. We won't be covering these today.

HOW DO YOU PAY THE TAXES THAT YOU OWE?

- ❖ Estimated taxes –Sadly, taxes are supposed to be paid as you go. Estimated tax is the method used to pay Social Security and Medicare taxes and income tax, because you don't have an employer withholding these taxes for you. Even more sadder, these estimated taxes have to be paid to both the Federal government, and the state.
- ❖ General Rule In most cases, you must pay estimated tax for 2020 if both of the following apply.:
 - ❖ 1. You expect to owe at least \$1,000 in tax for 2021, after subtracting your withholding and refundable credits.
 - ❖ 2. You expect your withholding and refundable credits to be less than the smaller of: A. 90% of the tax to be shown on your 2021 tax return, or B. 100% of the tax shown on your 2020 tax return. Your 2020 tax return must cover all 12 months.

HOW DO YOU PAY THE TAXES THAT YOU OWE?

- **Payment Due Dates** You can pay all of your estimated tax by April 15, 2020, or in four equal amounts by the following dates.
 - 1st payment April 15, 2021
 - 2nd payment June 15, 2021
 - 3rd payment Sept. 15, 2021
 - 4th payment Jan. 15, 2022* * You don't have to make the payment due January 15, 2022, if you file your 2021 tax return by February 1, 2022, and pay the entire balance due with your return.
- ❖ Pay **FEDERAL TAX** –Payonline with a credit or debit card, bank account, check/money order.
- ❖ Pay **STATE TAX**—Setup a Mytax Illinois account.
- ❖ Pay **STATE SALES TAX**—Setup a Mytax Illinois account, Register your business, pay taxes by the 20th of the following month.



SELF-EMPLOYMENT TAX

- ❖ If you are self-employed as an independent contractor (receiving a 1099-NEC) and you are not organized as an S corporation, your bottom line profit is subject to SELF EMPLOYMENT tax, in addition to INCOME TAX.
- ❖ If you have been an employee before receiving a W-2, then you are familiar with having Social Security and Medicare (SELF EMPLOYMENT TAXES) taken from your paycheck at 7.65%. Most people don't realize that their employer matches that 7.65% for a total of 15.3%.
- ❖ Self-employment tax is 15.3% since you are the employee and employer
 - ❖ Can you reduce this tax and if so how?



TAX REDUCTION TIPS

- ❖ If you have children that are at least 7 years of age or older, you can have them work in your business. The job has to be age appropriate, & the pay reasonable. Currently you can pay a child under the age of 18, up to \$12,400 income tax free, and self employment tax free. In IL, they will have some income tax to pay.
- ❖ 14 day free rent! Rent meeting space at market rate from someone that will allow you to use their home, or office to have your business meetings. Deduction for you, TAX FREE to them!
- ❖ Self employed 401k. Defers (pushes to later) your income tax, and allows you to access up to 50% of your money in an emergency.

TAX REDUCTION TIPS

S-CORPORATION STATUS

- ❖ Clouds open to the sun and sounds of angels singing as by electing S corporation status washes the net profit clean of self-employment taxes. You get taxed on the income only once.
- ❖ Minimum qualification is a net profit is \$35,000 as there are minimum costs (*bookkeeping, quarterly payroll & tax return*) so this is the breakeven point.
- ❖ Create separate legal entity (LLC, PA, Inc, Corp) – (this is a state designation) –
- ❖ Request S-corp election by a Small Business Corporation from the IRS within 75 days of formation of your entity (this is a federal designation).
- ❖ Have your sponsoring broker pay the EIN OF YOUR S-CORP, not your social security #.
- ❖ Include in your employment agreement that any commissions must be paid over to your company.

ELECTING S CORPORATION STATUS IS THE ANSWER, CON'T

- ❖ However, the IRS knows that the S corporation status washes away the tainting of self-employment taxes and requires the shareholder/owner to pay themselves reasonable compensation (discussed later).
- ❖ That means the shareholder/owner who is also an employee will need to pay payroll to themselves (\$)—We offer quarterly payroll to save you money versus you paying monthly payroll cost.
- ❖ The new legal entity will file Form 1120S annually
- ❖ Following this method can save you (\$500 to \$5,000 or more - annually *)

* Actual results will depend on your personal facts and circumstances

REASONABLE COMPENSATION

- ❖ S corporations must pay reasonable compensation to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee.
- ❖ We look to the compensation of others who hold similar positions and are providing similar services to what the shareholder/owner/employee does. But keep in mind that you are effectively paying self-employment taxes to the extent you take a salary. Therefore, you are limiting the amount of taxes you pay.
- ❖ Once you pay the reasonable compensation, distributions of the remaining profits are only subject to income tax.

GOOD RECORD KEEPING

- ❖ Mileage Log (MileIQ) – contemporaneous log
- ❖ Keeping receipts and invoices (credit card and bank statements are not sufficient – Wal-Mart, Publix, Best Buy) – personal and business
- ❖ Records can be kept electronically (make sure you are backing them up)
- ❖ Repair Regs – must have election on a timely filed return to deduct in current year for fixed assets purchase under \$2,500 per item.

GOOD RECORD KEEPING, CON'T

- ❖ Gifts – limitation of \$25 per person (keep list of people). Husband & wife considered 2 people. Wife, husband, 2 children, =4 people.
- ❖ Issue 1099-NEC's to people you pay for services (including your clients) ** Does not include payments to corporations, utilities, etc.
- ❖ Home office
- ❖ Meals and Entertainment – 50% limitation

FEDERAL & STATE TAX LIENS

❖ **Do you have problems closing on a property because your buyer or seller has an outstanding federal tax lien?**

- ❖ We can help your client get the federal tax lien subordinated, withdrawn, or temporarily released in order for you to close.

❖ **Do you have problems closing on a property because your buyer or seller has an outstanding state tax lien?**

- ❖ We can help your client get the federal tax lien subordinated, withdrawn, or temporarily released in order for you to close.

❖ **What is a tax lien?**

- ❖ A Public Notice (on file at Clerk of the Courts)
- ❖ Attaches to everything the taxpayer owns or will own (including cash)
- ❖ After 180 days, supersedes most other types of liens, except property taxes and mortgages

UNFILED TAX RETURNS & SELF EMPLOYED PERSONS

❖ **Does your buyer have a hard time getting a mortgage because they have not filed tax returns in a few years?**

❖ We can help your client get those returns filed so they can qualify for a mortgage and buy that house (and again you can get paid sooner)

❖ **Does your buyer have a hard time getting a mortgage because they have tax debt that they have not taken care of?**

❖ We can help your client apply for a settlement if they qualify, or get into a full or partial installment agreement.

❖ **Does your buyer have a hard time getting a mortgage because they are self employed?**

❖ We work with loan officers that can help us work backwards (in a sense) to view your clients credit and let us know what amount of income they need to show to qualify for the mortgage amount of their choice. In these cases we may decide not to be as aggressive with our tax deductions so that the clients income will be high enough to qualify.

QUESTIONS?

- ❖ For a complimentary 15 minute Real Estate Professional Tax Strategy consultation where we will discuss your personal tax saving opportunities contact us. We only offer a limited number of complimentary consultations, so if you want to save money, [ACT NOW!](#)
- ❖ (855) 743-5765 phone
- ❖ thoward@howardtaxprep.com

We work hard to protect you from the IRS so you can sleep better at night!