

The Majority of Realtors are Overpaying Their Income Taxes

The Realtor Tax Savings Initiative of 2014

Realtors are OVERPAYING Their Income Taxes by THOUSANDS OF DOLLARS Each Year

Learn Now:

- If you are one of the millions of Real Estate Professionals that is in fact significantly overpaying your taxes. *(You will know by taking the simple 2 question tax quiz on the NEXT PAGE)*
- If you are overpaying your taxes, learn about the Realtor Tax Savings Initiative and how it will help you!
- What is a P.A., and why do doctors, lawyers and other professionals use it?
- How can a P.A. help you earn more AND save more money!

Help Your Clients:

- Learn the tax deductions that most buyers & sellers forget about. (They are found on the the HUD-1)
- The government has not reinstated the primary residence exclusion for cancelled debt (1099-C Income). How will this affect your short sale clients?

Do you know your tax deductions?

- Use our 2013 tax deduction worksheet for real estate professionals.

“Reading this guide & learning about the Realtor Tax Savings Initiative will save you thousands of dollars” -

The Realtors Income Tax Quiz

Are you paying too much in taxes?

Which best describes your current real estate business?

1- I (we if you have a partner or partners) currently operate as an:

- a- Single Member LLC (That did not elect to be taxed as an S-Corp)
- b- Multiple Member LLC (That did not elect to be an S – Corp)
- c- S- Corporation (including a PA – Professional Corp)
- d- Sole Proprietor
- e- Partnership

2- My total real estate sales commission in 2013 was:

- a- Less than \$15,000
- b- More than \$15000

If you answered anything except C for question #1 and answered B for question #2, you are almost certainly paying more in taxes than you should be. THE GOOD NEWS IS, YOU QUALIFY FOR THE REALTOR TAX SAVINGS INITIATIVE

Dear Real Estate Professional,

The next several pages explain the differences between the various business structures. We have also included several examples on how the structures are taxed differently and which ones historically have a higher chance of an IRS audit. Added information has been included to allow you to help your clients.

At any point feel free to call us with any questions at 561-350-9278. Or if you prefer, reach us by e-mail at: realtortaxsavings@byckfinancial.com

Sincerely,

David Byck

Accountant & Tax Consultant

Choosing the Wrong Structure for Your Real Estate Business Could Cost You Thousands of Dollars

As a Realtor, you are usually a commissioned professional. Being this is the case, you are in fact considered self employed. Self Employment has several wonderful advantages. For one, you are your own boss, make your own hours and you alone can determine how successful you can be. That being said, being self employed requires you to truly contemplate the structure of your business. As we tell all of our clients, success is not only measured by how much money you make, but also how much money you get to actually keep!

Being self employed gives you the major advantage of choosing how your business is structured. There are 4 main business structures we predominantly see amongst Realtors.

1. **Sole Proprietor**
2. **Partnership**
3. **LLC (*Limited Liability Company*)-*assuming not taxed as an S-Corp***
4. **S-Corporation (Including a PA)**

1- **Sole Proprietor** – If you receive commission checks for real estate sales and have no Corporation or LLC established you are in fact a Sole Proprietor. This is the simplest form of business. Simply file your (1099-Misc) income on Schedule C of your personal tax return and you are done. But be aware, as a sole proprietor, your business and personal finances are intermingled. As a sole proprietor your personal assets will NOT be protected from lawsuits or claims against you as a Realtor. Sole Proprietors will pay Self Employment tax of 15.3% of all income you earned as a Realtor after expenses. Of course you will be also responsible for federal income taxes on this money as well! It is important to note, taxpayers who file a schedule C are historically 4 times more likely of being subject to an audit than those who do not file a schedule C.

2- **Partnership** – A Partnership occurs when more than one individual owns a business together and the owners never filed articles of incorporation (to become a corporation) or articles of organization (to become an LLC.) Partnerships must file a 1065 partnership tax return with the IRS. Each partner will receive a partnership K-1 which will then be reported on their personal tax return. All income from the partnership K-1 will be subject to Self Employment tax just like a Sole Proprietorship.

3- LLC – An LLC is often used as a method to protect business owner’s personal assets in case they are ever sued or held accountable for actions that were done by them during the course of business. Please be advised, negligence and intentional torts (with a purposeful act to harm) can pierce the LLC veil rendering the protection null and void. Most LLC’s we have come across are single owner LLC’s. A single owner LLC is referred as a “disregarded entity” in the eyes of the IRS. This means that the LLC will be filed on a Schedule C and be taxed the same was as a Sole Proprietor is. It also means the Schedule C is subject to the higher chances of an audit. If the LLC has more than one owner it is generally required to file a 1065 (partnership tax return). All Income is then passed through to the partner’s individual tax return and still subject to the same Self Employment Tax and federal income tax rates a sole proprietor would be.

(We do not see any benefit for a single realtor to open and operate as an LLC, Limited Liability Companies with 2 or more members may offer additional asset protection from personal creditors)

One Last note, it is possible for an LLC to be taxed as an S-Corp, this would require the correct forms to be filed with the IRS. (Mainly form 8832 or 2553).

4- S-Corporation (Including P.A.)- an S-Corporation is in fact a corporation just like Google, IBM, Coca Cola, etc. The main difference is that it is classified as a sub chapter (S) – as it is a Small Business. S Corporations distribute profits to its shareholders via a K-1. Profits distributed from S-corporations (also known as distributions) are **NOT exposed to Self Employment Tax!** That’s right you read correctly, a major tax advantage is staring you right in the face. The Self Employment tax rate is 15.3% and as mentioned before, all profits (income after expenses) are subject to it for LLC’s and Sole Proprietors and even partnerships. Professionals like doctors, attorneys and real estate sales professionals can choose to be a PA (Professional Corporation) instead of just a corporation.

Can having a P.A help you earn more money?

Not only does having a P.A. afford you fantastic tax benefits, it is fairly common for customers who are looking at buying or selling a home to view a professional with P.A. after his/her name as more experienced. Some customers view those professionals with P.A. after their name as to have greater credentials and knowledge making them more likely to choose to work with them.

So what’s the catch?

Well the IRS does expect you to pay yourself a salary that is reasonable. Based on Florida’s bureau of labor statistics we can use a salary between \$21,260 and \$31,000 dependent on how many years the Realtor has been licensed. *If a real estate professional earns a net income (after expenses) of less than \$40,000, we recommend a salary of 50% of the net income. Lastly, if selling real estate is a part time job and the realtor has a net income of less than \$10,000 or receives a W-2 from a primary job, it is possible that NO salary will be required.*

Here are Some Examples:

Example #1- *John is a Real Estate Agent for less than 5 years:*

John earned \$75,000.00 in real estate commissions and had \$20,000.00 in expenses. His profit was \$55,000.00.

Scenario 1- LLC or Sole Proprietor – Taxes would be:

\$55,000 x 15.3% for Self Employment Tax = \$8,415.00

Scenario 2 – S-Corporation – (PA) Taxes would be:

\$21,260 x 15.3% for self employment tax = \$3,252.78

By filing as an S-corporation, John would have saved \$5,162.22 (\$8,415.00 - \$3,252.78).

Example # 2- *Dana is a Real Estate Agent for 14 years.*

Dana earned \$140,000 in real estate commissions and had \$35,000 in expenses. Her profit was \$105,000.

Scenario 1- Dana had an LLC or was a Sole Proprietor- Taxes would be:

\$105,000 X 15.3% (Self Employment Tax) = \$16,065.00

Scenario 2 – Dana has an S Corporation (She takes a Salary of \$31,000) - Taxes would be:

\$31,000 X 15.3% (Self Employment Tax) = \$4,743.00

By Filing an S Corp Dana would have saved herself \$11,322.00 (\$16065.00 - \$4,743.00)

Example #3 – Leslie sells Real Estate Part time

Leslie earned gross commissions of \$22,500.00 and she has \$7,000.00 in expenses. Leslie's profit was \$15,500.00.

Scenario 1- Leslie had an LLC or was a Sole Proprietor – Taxes would be:

\$15,500.00 X 15.3% (Self Employment Tax) = \$2,371.50

Scenario 2 – Leslie had a PA which was categorized as an S-Corp

If Leslie had another job and earned a W-2, she would NOT take a salary. If she had no other job we would take a salary of 50% of her net commissions or \$21,260.00 whichever is less. In this case 50% of Leslie's Net Commissions would be

- If Leslie took a salary her Self Employment Tax would be - $\$7,750.00 \times 15.3\% = \$1,185.75$
- If Leslie did not take a salary there would be NO Self Employment Tax.

In Leslie's case if she took a salary **her savings would have been \$ 1,185.75** (\$2,371.50 - \$1,185.75)

If Leslie did not need to take a salary **she would have saved the entire \$2,371.50.**

****In all the examples, the agent will always be still responsible for Federal Income tax which is separate from Self Employment Tax. However, credits, and deductions are used to offset Federal Taxes, there are no credits against Self Employment tax, and the entire profit of the business is taxed.***

***** If a real estate professional earns net income (income after all expenses) of less than \$10,000 we generally do not advise on taking a salary***

We hope this has helped you get a better understanding of exactly how you can SAVE THOUSANDS of DOLLARS in taxes.

Paying yourself a salary requires filing some federal and state tax forms. These forms are usually due at the end of each quarter. There are a few yearend filings that are required as well. This may sound overwhelming but it is well worth it if it means saving significant money.

After speaking with several of our Real Estate clients who we have been working with and hearing the positive feedback they have been giving, we have decided to create the ***Real Estate Professional Tax Savings Initiative***.

Please turn to the next page to see our services and discounts for Real Estate Professionals looking to take advantage of this offering

The Real Estate Professional Tax Savings Initiative Service Menu

This menu is a la carte, you do not have to do everything here to work with us.

Service #1- Incorporate your business (one time fee) - (S-Corporation)- \$175 – Fee is normally \$275

This includes:

- The incorporation of the business with the state (You choose the name of your corporation.) – **If you want a P.A, you can use : Your Name, P.A.**
- Full Registered Agent Services
- Request of a Federal Employer Identification Number (EIN#/Tax ID#)
- Application to be classified as a sub chapter S corporation with the Internal Revenue Service – **This is a MUST**

**** You can continue to get paid to your personal name if your broker does not want to pay your corporation, this is not a problem (call us to discuss)**

Service #2- Realtor Payroll Filings - \$225 per year or \$65 per quarter – Fee is normally \$115 per quarter or \$400 per year

This Includes:

- The filing of all quarterly Payroll tax returns (Form 941)
- The filing of all State quarterly Unemployment Forms (RT-6)
- The filing of all Year End Payroll Forms (940, W-2 &W-3)

We will also conduct phone calls or e-mails (whichever you prefer) with you to discuss and advise you on the proper salary that needs to be taken each quarter, if any. It is acceptable to have quarters where NO salary is taken based on your sales.

Service #3- Corporate Tax Return Filings

I- **Annual Filing of Corporate Tax Return \$225 –Fee normally \$375**

This Includes:

- **Preparation of 1120 (S) Tax Return**
- **Creation of K-1 Distribution forms**
- **Consultation to go over expenses and maximize tax deductions**
- **Completion of Balance Sheet on 1120(S)**

II- **Annual filing of Personal Tax Return (1040) \$75 – Fee Normally \$150 - \$750 based on complexity**

- **We will provide this significantly discounted tax preparation and filing service only for those real estate professionals we do corporate tax work for.**
- **Includes all schedules (A, B, C, D, and E)**
- **Includes E-Filing**
- **We sign and stand by all of our work in front of the IRS**

**We will also be helping our clients identify and qualify for any federal tax subsidies available under the Affordable Care Act, if they are interested.

Cost Savings Analysis

- You now are aware of the significant savings you will receive by choosing the right structure, in most cases an S-Corporation (Again a P.A. is a professional Corporation which can be an S-Corp)
- You also are aware of the filing requirements required in order to have an S-Corporation and what is needed to take advantage of the substantial tax savings.

Let’s analyze the Tax savings versus the cost of having an S-Corp under the Real Estate Professional Tax Savings Initiative.

Below is a table comparing SE Tax (Self Employment Tax) from an LLC, Sole Proprietorship or Partnership vs. Payroll Tax from a salary taken via an S-Corporation.

Gross Income	Expenses	Net Income	SE Tax	Salary	Payroll Tax	Savings
\$ 13,000.00	\$ 3,900.00	\$ 8,000.00	\$ 1,224.00	\$ -	\$ -	\$ 1,224.00
\$ 25,000.00	\$ 7,500.00	\$ 17,500.00	\$ 2,677.50	\$ 8,750.00	\$ 1,338.75	\$ 1,338.75
\$ 50,000.00	\$ 15,000.00	\$ 35,000.00	\$ 5,355.00	\$ 17,500.00	\$ 2,677.50	\$ 2,677.50
\$ 75,000.00	\$ 22,500.00	\$ 52,500.00	\$ 8,032.50	\$ 21,260.00	\$ 3,252.78	\$ 4,779.72
\$ 100,000.00	\$ 30,000.00	\$ 70,000.00	\$ 10,710.00	\$ 25,000.00	\$ 3,825.00	\$ 6,885.00

The cost of filing all S-Corp forms per our Real Estate Professional Tax Savings Initiative is - \$450.00. This of course does not include the personal tax return that you would have to file either way.

You will notice in every example the salary is NEVER more than 50% of the net income and in some cases it will be less than 50% of the net income based on the average income earned by Real Estate Sale Professionals according to Florida. We used the industry average 30% for Expenses

The S-Corp will save almost anyone money, those who have a very small net income (under \$10,000) we do not think it is necessary to take a salary, hence the savings on the \$13,000 earner above.

Call David Byck today at 561-350-9278 or simply complete the form on the next page and start saving money on your taxes! We look forward to working with you!

Realtor Tax Savings Initiative Sign Up Form

If you would like to start paying less money in taxes from now on, take advantage of this program today. Please Complete this form and fax to **800-866-3150** or email it to realtortaxsavings@byckfinancial.com

Your Name _____

E-mail Address _____

Phone Number _____

Current Business Structure (Please Circle One Below)

Sole Proprietor Partnership LLC S-Corp I Don't Know

Approximate Gross Income for 2013 _____

You will be contacted immediately once this is received. Congratulations on taking the first steps needed to start saving yourself A LOT of Money!

Important Tax Information for your Buyers & Sellers

Tax Deductions Found on the HUD-1 Settlement Statement

Buyer Deductions on the HUD-1

Buyers can deduct a number of items on the HUD-1 on their income taxes. Refunded and upfront property taxes are deductible, as is prepaid interest. Mortgage insurance premiums may be deductible (depending on income), as are interest charges, including both days of interest and prepaid points. When you purchase a home, points are deducted in their entirety that tax year. Keep in mind that the IRS only lets you deduct the interest on the first \$1 million in loans.

Seller Deductions on the HUD-1

Although buyers get the most deductions out of the HUD-1 statement, sellers have their fair share, too. For example, if you paid points when refinancing your home and are now selling, you can deduct the remainder of your unamortized points that tax year. You can also deduct any property taxes that you paid on the home for the year, in addition to your mortgage interest. Keep in mind that mortgage interest is only deductible on your primary residence. Second mortgage loans are only deductible up to the first \$100,000. Also, all of what you paid in mortgage interest and property taxes may not appear on the HUD-1 statement, so wait until you get your 1099 from your mortgage company before you take the deductions.

Calculating the Cost Basis when selling a home

The real estate broker's commission is not deductible. But the IRS recognizes that this is a considerable seller expense, and it provides a remedy. You can add real estate commissions, as well as costs of major home repairs, to the purchase price. This adjusted cost basis reduces your gain on the sale, and if your gain is greater than \$500,000, then you'll be glad you took the time to make the calculation. The IRS doesn't tax gains less than this amount, so if your broker fees and your repairs reduce the gain, then you won't owe extra income tax.

Short Sales, Cancellation of Debt Income (1099-C) & the Expiration of the IRS Primary Residence Exclusion

If you work with short sales you may already know that for the past several years the IRS had a law in place that allowed cancelled debt income from short sales, foreclosures and loan modifications to be forgiven if the property associated with the debt was a primary residence and the amount forgiven was part of the acquisition cost of the property.

As of now, this allowance is NO LONGER AVAILABLE. This means that the primary home exclusion is no longer available. Your clients will NEED to know that this is the case as the tax consequences could be significant.

However, there is good news. The majority of people who receive a 1099-C are still able to exclude the income, as they may qualify for the other IRS exclusions afforded to them via form 982. This includes the insolvency exclusion which will be the most popular.

The 982 reduction of tax attributes filing is somewhat complex but is definitely worth it as it may save your client's literally THOUSANDS of dollars in taxes.

**Buyers of rental properties may be able to use the business exemption if they qualify.

We have helped thousands of clients with cancelled debt income. We are familiar with every exclusion available and have used them as needed for an array of situations.

Byck Financial Services, Inc - Trusted Accountants and Advisors Since 1978

The 2013 Realtor Tax Deduction Worksheet

We will provide you with all deductions available & implement a plan to lower your taxes in the coming years

Call to schedule your appointment today

561-350-9278 www.byckfinancial.com

Supplies & Expenses	Cost	Professional Fees & Dues	Cost	Telephone Expenses	Cost
Advertising, Signs, etc.	\$	Association Dues	\$	Mobile Phone Bill	\$
Appraisal Fees	\$	Corporation, LLC Filing & Annual Fee	\$	Paging Service	\$
Attorney Fees	\$	License Fees	\$	Home Phone Used For Work	\$
Bank Fees	\$	Chamber of Commerce	\$	Business Phone	\$
Business Meals & Entertainment	\$	Realtor Board	\$	Internet Costs	\$
Clerical Help/Assistant	\$	Other Memberships	\$	Total Telephone Costs	\$
Computer/Technology	\$	Total Professional Fees & Dues			
Software (work related)	\$				
Computer Supplies	\$	Out Of Town Travel	Cost	Auto Expenses (\$.565/mile)	Cost
Courier Fees	\$	Airfare	\$	Driving to Continuing Education	\$
Repairs (all work related)	\$	Car Rental	\$	Driving To Mortgage Company	\$
Fax Costs/Supplies	\$	Taxi	\$	Driving to Title Office	\$
Gifts	\$	Public Transportation	\$	Driving to Client Meetings	\$
Postage	\$	Lodging	\$	Driving to Purchase Sales Aids	\$
Cards, Mailings	\$	Meals	\$	Driving to Show Properties	\$
Marketing Materials	\$	Parking Costs	\$	Driving to Research Properties	\$
Business Cards	\$	Tolls	\$	Tolls	\$
Legal Services	\$	Other Expenses	\$	Parking Costs	\$
Accounting Services	\$	Total Out of Town Travel Costs		Total Auto Expenses	\$
Lockboxes, Keys, Locksmith	\$				
MLS Fees	\$	Continuing Education	Cost	Equipment Purchases	Cost
Open House Costs	\$	Course Fees	\$	Copy Machine	\$
Photocopy Expenses/Paper	\$	Registration Expenses	\$	Fax Machine	\$
Rent	\$	Materials & Supplies	\$	Phone	\$
Repairs to Marketed Properties	\$	Seminar Costs	\$	Computer	\$
FedEx/UPS	\$	Text Books	\$	I-Pad (Tablet)	\$
Stationary	\$	Other CE Expenses	\$	Camera	\$
Leads	\$	Total Continuing Education Costs	\$	Video Recorder	\$
CRM Software Costs	\$			Other Equipment Purchases	\$
Website Costs (incl. hosting)	\$			Total Equipment Costs	\$
Miscellaneous Fees	\$				
Total Supplies & Expenses	\$				

** Please do not claim any expenses that you have been reimbursed for.