Typical Tax Deductions

For Real Estate Professionals

Most taxpayers, including first-time filers, Schedule C filers and military personnel, can take advantage of a wide variety of affordable tax preparation and e-filing services. You can file online from the convenience of your home or you can work with a tax professional.

Automobile Costs

Either actual expenses or the standard mileage rate deduction is available. For most real estate professionals, the standard mileage rate gives you the greater tax benefit over the life of the vehicle and is somewhat easier to administer. For 2017, the standard mileage rate is $0.535/mile for business miles. Actual expenses can include a deduction for depreciation. Mileage is also used to determine how much of the actual expenses can be deducted (ratio of business miles to total miles), so a mileage log must be kept with either the standard mileage or the actual expense method. Once a method is selected, either standard mileage rate or actual expenses, this method must be used until disposition of the vehicle. The decision whether to lease or buy an automobile is often personal and each taxpayer's circumstances may differ. Maintain a record of mileage.

Education Costs

The costs for continuing education once you receive your real estate license are 100% deductible. The costs for education prior to becoming licensed are not deductible.

Meals and Entertainment

Ordinary meals and entertainment expenses sustained in the course of business are tax deductible, subject to a 50% reduction. However, food for an open house or a special marketing presentation can be deducted as a marketing or advertising expense and therefore are not subject to the 50% limitation. It is important to document who you dined with and the business purpose on all receipts.

Equipment Purchases

The cost of business assets (computers, printers, cell phones, office furniture, tablets, etc.) which are expected to have a life of more than one year can be depreciated over the life of the asset. However, Sec 179 of the Internal Revenue Code (IRC) allows these assets to be deducted in the year of purchase if the total amount purchased in the year is no more than $500,000, at the election of the taxpayer. The asset must be owned by the taxpayer.

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Contract Workers/Outside Services

If you pay $600 or more to a single payee for business-related services, then you are required to send that person a Form 1099, which must be furnished to the individual by January 31 each year. The IRS can penalize a taxpayer for failure to correctly file an information return (1099) in a timely manner from $30 to $100 per return and the IRS is presently enforcing these penalties.

Health Insurance

Health insurance premiums for the self-employed are 100% deductible. You can also deduct premiums paid to cover your spouse and dependents, unless your spouse's employer provides coverage. If your spouse's employer does provide some health insurance that is partially paid for by the employer, then the deduction appears in Schedule A, itemized deductions, and is subject to the 7.5% medical expenses limitation, meaning that the taxpayer can only deduct medical expenses greater than 7.5% of their Adjusted Gross Income.

Legal and Professional

Costs paid to attorneys, certified public accountants, enrolled agents and business coaches related to your real estate business are deductible expenses.

Telephone and Internet

Costs for business lines into your office are 100% deductible. Cell phone costs are deductible for the business portion of your calls. If you maintain a home office, the cost of the first phone line into your home is never deductible. The costs for any long distance calls on any phone are deductible if business related. Internet connectivity costs for a home office that can reasonably be determined to be for business use can be deducted.

Home Office Deduction

If you use part of your home for conducting business and that part of the home is a) for the exclusive and regular use of your business and b) your home office is the principal place of business, you may qualify for a home office deduction. You may qualify even though you also carry on business at another location. You are able to deduct a portion of mortgage interest, property taxes, property insurance, utilities, HOA dues, repairs and maintenance. Several of these expenses are normally not deductible to an individual taxpayer. The deduction is based upon the square footage of the business area divided by the total square footage of the home. You can also deduct depreciation for the business area of the home. However, any depreciation deducted is subject to recapture at the sale of the home. In other words, the accumulated depreciation is treated as ordinary income and is not part of the homeowner Sec 121 exclusion when the home is sold. Finally, a renter can have a home office deduction also.

Other Deductions

Most other expenses related to your business are deductible if ordinary and necessary to your trade or business. These deductions may include ABOR dues, TREC fees, MLS fees, signage, flyers, business cards, advertising, lockboxes, office supplies, postage, etc.

Audits

It is difficult to predict which return will be audited and what will be accepted by the IRS. Some things that are generally examined in an audit of a REALTOR® are: a mileage log for vehicles, home office parameters and expenses that can be traced from the tax return to the bank account or the credit card showing evidence of payment. In other words, you have to pay for the deduction.

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Note: Tax/financial advice is often developed for a specific individual and circumstance. For this reason, do not assume that a strategy tailored for one individual, entity or event will apply in another unrelated or similar case. For guidance on what you can deduct, always check with a qualified tax advisor.

IRS CIRCULAR 230 DISCLOSURE

Pursuant to requirements imposed by the Internal Revenue Service, any tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for purposes of avoiding penalties imposed under the United States Internal Revenue Code or promoting, marketing or recommending to another person any tax-related matter.

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