



nyrej

Commercial Classroom: Tax deductions for real estate agents - by Edward Smith

March 06, 2018 - Long Island



Edward Smith Jr.,
Smith Commercial Real Estate

This column is offered to help educate agents new to commercial and investment brokerage and serve as a review of basics for existing practitioners.

This article will cover a lot of possible tax deductions which you may or may not be able to take. Your individual situation needs to be discussed with your accountant or tax advisor. Generally, if you are an independent contractor you can deduct most expenses related to your business activities. But, be sure to keep a daily log of your business activities and expenses, as well as receipts for everything; so in the event of an IRS audit you have documentation. Significant changes will be occurring for the 2018 tax year (which you will file for in April, 2019).

The new tax law, effective January 1, 2018 provides Sole Practitioners (Independent Contractors), LLC's, Partnerships and S Corporations a 20% deduction of business income. Excluded are "Personal Service Businesses." Defined as "Any business where the main asset of the business is the reputation or skill of one or more of its employees or owners." Real estate agents and brokers are in this category. However, NAR secured an exception for single owners with taxable income under \$157,500 and for couples filing jointly with taxable income under \$315,000. The deduction is phased out for income above this and eliminated on single income over \$207,000 and couples filing jointly income over \$415,000.

In our field we do a lot of driving, car expenses (leased or owned) are tax deductible with the exception of "commuting miles" to and from your home to your office. This can be deducted by 53.5¢ a mile in 2017 and is raised to 54.5¢ a mile in 2018; or by specific expenses for fuel, repairs, car washing, depreciation, etc. Tolls and parking expense are also deductible. Interest on a car loan, based on business use percentage is also deductible. Other business travel by rail, air, ferry's, taxicabs may also be deductible.

Advertising is deductible and takes many forms: print media, signs, banners, business cards, postal expense of mailings, flyers, promotional materials, web site development and fees and online advertising.

Deductible professional fees include: MLS fees, costs of other listing services, licenses, E&O insurance, subscriptions to trade publications, fees to attorneys, accountants and consultants. Business and trade organizations dues are deductible.

Equipment used in your business may be deductible for example: Cellular phones, pagers, an answering service, iPad, cameras, calculators, computers, laptops, software programs, copy machines, desk fees if you have them at your office, GPS subscriptions, office furniture, file cabinets and office supplies.

Education: The costs of continuing education courses are deductible, as are expenses to attend other seminars or business conferences to maintain and increase your skills. Also deductible are the costs of travel and lodging to attend these events. Books, tapes, CDs, DVDs related to real estate, sales, leases, negotiations and online courses are deductible.

Sales expenses that may be deducted include: client gifts, clerical support, wages paid to a sales assistant, commissions and referral fees you paid out, bank fees (you should have a separate bank account for your business), open house or broker reception costs, locksmith and keys, lockboxes.

Self-employed people may deduct 100% of their health insurance premiums.

Entertainment of clients expenses (50% of costs) were deductible for 2017; but are no longer deductible in 2018.

The 50% deduction for food and drink associated with business or work travel still remains deductible. Be careful, this is often reviewed by the IRS. Be sure to document the business discussion that occurred before, during or after meeting or event.

Home office deduction is possible if you exclusively use a portion of your home for business; this deduction is also often looked at by the IRS. If you rent or own a home a percentage of the expense may be deducted; this could include the rent, utilities, repairs, maintenance, mortgage interest, real estate taxes, depreciation, and condo association fees.

Retirement plan contributions to IRA's, and similar plans can help shelter your business profits. Discuss these opportunities with your advisor.

Tax preparation fees paid in 2017 are deductible, but in 2018 they will no longer be a deduction.

Two key reminders, every persons situation is different you need to review these possible deductions with your accountant or tax advisor. Keep good records, a daily log and all receipts.

Edward Smith, Jr., CREI, ITI, CIC, GREEN, MICP, CNE, is a commercial real estate consultant, instructor and broker at Smith Commercial Real Estate, Sandy Hook, CT.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540