

TAX STRATEGIES FOR REAL ESTATE AGENTS

Prepared by: Maryann Chitseko; Managing Partner of BD Edmund Consulting, a full-service accounting practice located in McKinney, Texas. (maryann.chitseko@bdedmundconsulting.com)

Navigating the intricacies of tax obligations as a realtor is a critical aspect of managing your financial affairs. In this article, we'll explore key tax strategies designed to keep you compliant with IRS regulations while optimizing your tax position.

Legal Structure

Understanding the legal structure of your real estate business is the first step in this journey, as it profoundly impacts your tax liability. Among the most common legal structures for real estate agents are sole proprietorship with a Doing Business As (DBA) designation, Limited Liability Companies (LLCs), and S-Corporations. When it comes to taxation within these legal entities, S-Corporations often enjoy a tax advantage over non-S Corporations. This is due to the fact that S-Corporation owners are required to receive a salary, subject to Social Security and Medicare taxes. As an LLC owner, you will incur self-employment taxes on all net earnings from your real estate business. In contrast, S-Corporation classification allows you to pay these taxes only on the salary you draw from your company. Sole proprietors using a DBA, on the other hand, are liable for both income tax and a 15.3% self-employment tax on their business profits.

Tax Write-Offs

Beyond your business structure, understanding the permissible tax deductions can significantly impact your financial well-being. Here are some of the most common tax write-offs available to real estate agents:

1. Licenses and Dues: This includes expenses such as MLS dues, NAR dues, Association dues, brokerage fees, desk fees, and membership fees.

2. Marketing Expenses: Includes costs related to open house signs, listing signs, business cards, website development, hosting, and digital advertising, including Facebook ads.

3. Education and Training Expenses: Deductible expenses encompass workshops, seminars, and educational materials designed to enhance your skills and knowledge in the real estate industry.

4. Home Office Deduction: If you maintain a dedicated home office space for your real estate business, you can claim a portion of your home-related expenses as a deduction.

5. Office Supplies: Expenses incurred in acquiring office supplies essential for your daily operations.

6. Software Expenses: This includes the costs associated with lead generation software, customer relationship management (CRM) tools, and other software solutions integral to your real estate business.

7. Vehicle Deductions: You have the option to calculate your vehicle tax deduction using the standard mileage deduction method or the actual expense method, which accounts for all expenses directly related to your vehicle.

8. Depreciation of a New Vehicle: If you purchase a new vehicle for your real estate business, you may qualify for depreciation deductions.

9. Travel Expenses: Deductible travel expenses are those directly tied to business-related trips, including transportation, lodging, and meals.

10. Business Meals: Expenses incurred for business meals can be claimed as a deduction.

11. Gifts to Clients: Gifts given to clients as part of your real estate business can be considered deductible expenses.

12. Insurance: This includes category expenses for Errors and Omissions (E&O) insurance and health insurance premiums.

13. Legal Fees: Legal expenses incurred in the course of your real estate transactions may be deductible.

14. Tax Preparation and Accountant Fees: Costs associated with preparing and filing your tax returns can be claimed as deductions.

Understanding and leveraging these tax strategies can make a substantial difference in your financial bottom line as a realtor. However, it's crucial to work closely with a CPA or qualified professional to ensure that you are maximizing your deductions while remaining compliant with current IRS regulations.

By Maryann Chitseko is the Managing Partner of BD Edmund Consulting, a full-service accounting practice located in McKinney, Texas. She is a CPA with over a decade of experience in tax and financial accounting and reporting. Maryann's career journey began in the prestigious setting of a Big 4 audit firm, where she honed her skills and gained invaluable experience. However, her passion for supporting start-ups and small to medium-sized businesses led her to embark on a path that specializes in helping entrepreneurial ventures thrive. Dedicated to providing her clients with the highest quality tax services, Maryann has worked with a diverse range of industries, including real estate, insurance, FMCG (Fast-Moving Consumer Goods), banking, and capital markets. Her deep understanding of the intricacies within these sectors enables her to tailor financial solutions that meet the unique needs of each client.