3 tips to stay on track for your 2017 taxes

Spring is a season filled with optimism and new beginnings. With our 2016 taxes all but behind us, we can now shift our focus to improving next year's tax filing.

It's not too late to become more organized. Organization with respects to your real estate business will help ensure compliance with applicable tax laws and enable you to take advantage of all available business deductions.

I have outlined a few key tax considerations to help you stay on track for 2017.

Keep track of your business expenses

We see far too often, agents haphazardly throwing together business expenses at the request of their accountant in order to file their tax return shortly before the prescribed deadline.

The expenses are recalled from memory and are usually lacking support. This, of course, exposes agents to the possibility of an IRS audit and potential of overlooking valid business deductions.

Fortunately, the burden of tracking expenses has been alleviated by innovative applications, most of which are available for your smartphone.

Xero TaxTouch is a great tool for Schedule C filers (a required tax form for the self-employed), allowing them to untangle personal and business expenses by simply "swiping" expenses into the appropriate bucket.

Apps can also help you track your business mileage. MileIQ and MileTracker are two of the more popular choices that make separating personal and business mileage more manageable.

Decide to form or not to form

That is the question. Many agents operate as independent contractors and by default, sole proprietors. Although there is an "ease-of-entry" benefit to this type of business formation, it is not without its own issues.

First and foremost, liability exposure is a major reason we recommend forming a Limited Liability Company (LLC).

In a sole proprietorship, the individual owner is personally exposed for any faults that the business may commit. Whereas LLCs offer limited personal liability for debts or judgments against the company and offer pass-through tax treatment of profits and losses (avoiding double taxation).

Furthermore, forming a legal entity as suggested above provides a separate identity for you and your business. This will allow you the necessary documentation to obtain separate banking for your business.

In the interest of limiting potential liability exposure and the ability to easily track business activity, we recommend securing separate bank accounts for your real estate practice.

Take care of your quarterly estimated taxes

Taxes must be paid as you earn or receive income during the year, either through withholding or estimated tax payments.

As per the IRS, licensed real estate agents are considered statutory non-employees and are treated as self-employed for all Federal tax purposes, including income and employment taxes.

This coupled with the fact that they are not subject to W-2 withholding, means agents are on the hook for quarterly estimated tax payments that cover both their income and self-employment taxes (Social Security and Medicare tax).

Assuming your adjusted gross income (AGI) was more than $150,000 in the previous year ($75,000 if you are married filing separately), the IRS expects you to pay the lesser of 90 percent of your expected tax for the current year or 110 percent of the tax shown on your previous tax return to avoid an estimated tax penalty.

Far too often, we are seeing real estate agents who fail to make their quarterly estimated tax payments in compliance with the rules above.

Failing to make these payments results in costly penalties and interests levied upon by the IRS.

To avoid these unnecessary and expensive consequences, you should consider allowing a CPA to provide an accurate calculation of your quarterly estimated tax payments. In addition to their calculations, they will be able to provide completed vouchers and proper filing instructions to you.

Using these three tips, you will feel so much more prepared and organized come tax season next year.

Disclaimer: The author is a licensed CPA and not an attorney. Any advice on business formation or other legal decisions should be made by consulting a licensed attorney.

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