9 tax filing mistakes Realtors should avoid

As the tax filing deadline comes ever closer, real estate professionals find themselves in a familiar position: how to pay as little tax as required while staying off the radar of the ever-watchful IRS. Filing taxes can be complicated and avoiding a dreaded audit from Uncle Sam is paramount for most agents.

To help limit this concern, we've collected nine tax mistakes that real estate professionals commonly make so that you can avoid them when it's time to do your own taxes.

Being late

Many agents will fall on the wrong side of the IRS just because they are late in filing. Note: The deadline this year is Monday, April 15. In addition to your 2018 taxes, you are still on the hook for making an estimated quarterly tax payment based on your best guess of taxes owed for 2019.

Unfortunately, commission payments don't always sync up with tax payment cycles. And filing your taxes late can result in interest and late payment penalties. If you find you owe more than expected this year, consider getting a commission advance from eCommission. It can be a helpful financial tool to ensure you meet the IRS deadline.

Forgetting little (deductible) expenses

According to the IRS, to be deductible, a business expense must be both ordinary and necessary. Ordinary expenses are those that are commonly accepted in real estate — i.e., your car payment. A necessary expense is one that is helpful and appropriate for your business but does not have to be essential to be considered necessary, like coffee or lunch with clients. Take note of all ordinary and necessary expenses throughout the year, including office supplies, gifts given, state license fees, MLS dues, lead generation software, and CRM tools, no matter the amount. Even seemingly insignificant costs can add up over a year's time.

Commissions splits / Brokerage fees

Commissions paid to other agents or brokers as split listings are fully deductible as business expenses. In addition, everything an agent pays to a broker that is connected to the business is tax deductible. In most cases, these include paying desk and technology fees, and franchise contributions.

Going overboard with the home office

While the rules for deducting home office expenses are strict and easy to confound, it is still a deduction worth exploring. Be sure to check first if you are already deducting desk fees (see

Commission splits / Brokerage fees). If your home office is not ‘exclusively and regularly’ used as your principal place of business, you may be better off leaving this expense off your tax filing.

Inconsistent mileage deductions

For many real estate agents, mileage deductions make for a sizeable tax deduction. For your 2018 returns, you can deduct 54.5 cents for every mile you drove your vehicle for work. To take full advantage of this generous deduction in 2019 at 58 cents per mile, make sure you document all the trips you made including date and reason for the visit.

Omitting educational expenses

Did you take any real estate training courses this year beyond your required minimum state educational requirements? If so, don’t forget to deduct your travel costs, necessary materials, and registration fees.

Not deducting commission advances

Because commission advances are used to keep your business running smoothly, they are considered a tax-deductible business expense. Agents should include an itemized summary with their return detailing all advance fees paid.

Bad math

Filing taxes as a small business owner can be complicated. Erroneous data entry is one of the most common red flags for IRS auditors and is also one of the most preventable. If you are not highly proficient with tax filing dos and don’ts, we highly recommend having somebody go over the numbers with you. Tax software and/or accountants can prove to be worth their weight in gold.

Not correcting a mistake

You sent in your taxes and a couple of weeks later you realize you made a mistake. Sound familiar? But what do you do next? What you should NOT do is let it pass and hope that this one will fall between the cracks. The IRS has a dedicated form 1040X that you can submit to fix your error.

With over 20 years of experience working with real estate agents, eCommission understands the needs and challenges that agents face, especially during tax season.

None of the advice above is meant to be construed as tax advice. Your accountant or tax

consultant is the best person to give advice on how to avoid errors on your tax return. Want to learn more about the financial tool that can make funds readily available to you to meet the IRS deadline? Read about how eCommission can assist you here*.*

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