Taxes for Real Estate Professionals

Integrity in Tax & Accounting   920-277-2991   www.integrityintaxllc.com

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Healthcare Not Mandatory

Beginning 2019, there is no longer a penalty for not having health insurance.

Property Purchases in 2019 Qualify for Bonus Depreciation!

Contact Tina for additional information on taking advantage of accelerating the depreciation of your rental properties in the year of purchase. This can reduce your rental profit by 15-30%!

Outagamie County Tax Increases

Beginning Jan. 1, 2020, the .05% county tax will be in effect in Outagamie County. This means Sales tax on items purchased in Outagamie County will be 5.5%. If you are currently selling products or services in Outagamie County that you charge customers sales tax, you will need to increase the sales tax to 5.5%.

Standard Mileage Rates 2019

Business = $0.58

Medical = $0.20

Charity = $0.14

Tax Reform

* Standard Deduction:
$12,200 Single
$24,400 Married Filing Joint
$18,350 Head of Household

* Personal Exemption is eliminated for Tax Years 2018 - 2025.

* Child Tax Credit:
Increase to $2,000 per child under age 17. Dependents over age 17 may qualify for $500 credit.

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Make the most of your Opportunity Zone Investment

The window of opportunity for investors to maximize their tax benefits in the Opportunity Zone program is narrowing as the end-of-year deadline is fast approaching.

Since introduced as part of the 2017 tax reform legislation, the Opportunity Zone program tax incentives have generated excitement for developers and investors alike. To reap the maximum tax benefits afforded by the program, investors need to reinvest capital gains into a qualified opportunity fund (QOF) by December 31, 2019.

For a map of Opportunity Zones in our area, visit our website at www.integrityintaxllc.com clicking on the Taxes For Real Estate Professionals page.

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Mileage Deduction Reminders

A reminder for business owners who use IRS's standard mileage rates. You can't also depreciate or expenses the vehicle, nor can you claim write-offs for actual expenses incurred such as car repairs, insurance, and gas. The IRS is on the lookout for business owners that take the standard mileage deduction and also have vehicle depreciation and related expenses. For example, in the case of Eldred, Tax Court Summary Opinion 2018-49, a couple deducted vehicle expenses on Schedule C using the standard mileage rate and claimed depreciation deduction and Section 179 expense on the same automobile. The IRS selected their return for audit and allowed only the expenses based on the standard mileage rate.

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Time to Review Your Business Expenses

To be deductible, a business expense must be both **ordinary and necessary**. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary.

Deductible business expenses differ by industry. Unfortunately, the IRS does not produce a list of acceptable business expenses that are deductible.

Personal versus Business Expenses:

Generally, you cannot deduct personal, living, or family expenses. However, if you have an expense for something that is used partly for business and partly for personal purposes, divide the total cost between the business and personal use. You can deduct the amount allocated to business use.

For example, if you borrow money and use 70% of it for business and the other 30% for a family vacation, you can deduct 70% of the interest as a business expense. The remaining 30% is personal interest and is not deductible.

Business Use of Your Home:

If you use part of your home for business, you may be able to deduct expenses for the business use of your home. These expenses may include mortgage interest, insurance, utilities, repairs, and depreciation.

Remember the IRS has a home office simplified method of $5 per square foot up to 300 square feet. So, if your home office is 300 square feet or less, multiply the square footage of the office by $5 for the deduction.

Business Use of Your Car:

If you use your car in your business, you can deduct car expenses. If you use your car for both business and personal purposes, you must divide your expenses based on actual mileage. Remember the IRS can request a log of business miles. If you are unable to provide a log, the mileage deduction may be disallowed.

Other Types of Business Expenses:

- **Employees' Pay** - You can generally deduct the pay you give your employees for the services they perform for your business.
- **Retirement Plans** - Retirement plans are savings plans that offer you tax advantages to set aside money for your own, and your employees' retirement.
- **Rent Expense** - Rent is any amount you pay for the use of property you do not own. In general, you can deduct rent as an expense only if the rent is for property you use in your trade or business. If you have or will receive equity in or title to the property, the rent is not deductible.
- **Interest** - Business interest expense is an amount charged for the use of money you borrowed for business activities.
- **Taxes** - You can deduct various federal, state, local, and foreign taxes directly attributable to your trade or business as business expenses.
- **Insurance** - Generally, you can deduct the ordinary and necessary cost of insurance as a business expense, if it is for your trade, business, or profession.

Of course, these are not all of the business expenses that can be deducted.

As the year-end approaches, we recommend being proactive and reviewing your business expenses to be sure they meet the ordinary and necessary requirements.

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Common Deductible Rental Expenses

You can deduct the ordinary and necessary expenses for managing, conserving and maintaining your rental property. Ordinary expenses are those that are common and generally accepted in the business. Necessary expenses are those that are deemed appropriate, such as interest, taxes, advertising, maintenance, utilities and insurance.

You can deduct the costs of certain materials, supplies, repairs, and maintenance that you make to your rental property to keep your property in good operating condition.

Gross Rental Income
- Vacancy/Credit Loss Reserve
- Property Taxes
- Property Insurance
- Maintenance/Repairs
- Common Utilities (if any)
- Other expenses (ex: license)
= Net Operating Income

Generally, the tax law allows you to deduct rental expenses from the rental income such as mortgage interest, property taxes, insurance, and maintenance, depreciation. If you pay a property management company, their fee is deductible to offset the rental income. The most common missed deduction that often adds up is mileage. For example, the property owner's mileage to and from the property when making repairs or mileage to a hardware store to make a purchase for the rental property is deductible. The standard mileage rate for 2019 is $.58 per mile. Just make sure to keep a log throughout the year of your mileage.

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Prior Month's Newsletters

are available on our website at www.integrityintaxllc.com – click on Real Estate Professionals.

Would you like to receive this Newsletter by email each month? Email us at info@integrityintaxllc.com to be added to our distribution list.

Recent News & Court Cases

IRS Tax Liens on Real Estate can follow the property when it is sold: A buyer learned the hard way after purchasing realty in a foreclosure sale. Four years earlier, the IRS had recorded its Notice of tax lien on the property after the former owner fell behind on her income taxes. According to a federal court, the IRS can enforce its lien against the new owner of the property (Shirehampton Drive Trust, D.C. Nev.).

Attorney Had No Basis in His Labor: The taxpayer, an attorney, conducted his law practice through a wholly-owned S corporation. During the years at issue, the taxpayer didn't file a personal federal income tax return because he believed he wasn't required to pay any income tax. Among other things, he argued that IRC Secs. 83 , 1001, and 1012 entitle taxpayers to take into account their "basis in labor" (measured by fair market value) when computing tax liability for income from personal services. The Tax Court quickly dismissed this argument, noting that it's well established that the federal income tax applies to income for personal services and taxpayers have no basis in their labor. Nothing in IRC Sec. 83, 1001 , or 1012 provides otherwise. Therefore, the Court upheld the IRS's notice of deficiency and related penalties. *Michael C. Worsham* , TC Memo 2019-132 (Tax Ct.).

Finder's Fee for Acquired Business Not Deductible: The taxpayer, an Illinois plastics manufacturer, was acquired by one of Canada's largest institutional investors. Before closing, the investor agreed to pay a financial advisor a $1.5 million finder's fee for bringing the two parties together. The funds, however, came directly from the acquired business. For the year at issue, the taxpayer deducted 70% of the fee pursuant to Rev. Proc. 2011-29. The IRS disallowed the deduction, arguing that the taxpayer failed to show the fee was an ordinary and necessary business expense. The Tax Court agreed, holding that (1) the taxpayer didn't pay the finder's fee to primarily benefit its business and (2) the payment wasn't an ordinary and necessary business expense. According to the Court, the services rendered by the financial advisor didn't supply the taxpayer with a business purpose directly linked to the payment. Therefore, the deduction was disallowed in full. *Plano Holding LLC* , TC Memo 2019-140 (Tax Ct.).

Home Office Deduction Denied for Document Storage in Garage: The taxpayer owned a smog inspection station in California. By law, he was required to keep certain invoices and records regarding smog checks for at least three years. Because the station lacked office space, the taxpayer stored the inspection invoices and other business-related items in a shared two-car garage attached to his personal residence.

On his federal income tax returns for the years at issue, the taxpayer claimed home office expense deductions for the use of his garage. He argued this was the most convenient and inexpensive place to store the records. The IRS disallowed the deductions under IRC Sec. 280A(a). The Tax Court sided with the IRS, finding that the taxpayer's garage wasn't used exclusively as his principal place of business. Also, he didn't qualify for an exception that pertains to the storage of inventory or product samples that are sold at retail or wholesale. *Mohammad Najafpir* , TC Memo 2018-103 (Tax Ct.).