Taxes for Real Estate Professionals

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

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Rental 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%!

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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%.

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S-Corp Shareholders – Don't Forget Your Pay!

We recommend Shareholder compensation should be comparable to that of what the business would pay an outside, third party person to perform the same tasks and duties.

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Standard Mileage Rates 2019

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Business = $0.58

Medical = $0.20

Charity = $0.14

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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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1099's to be Issued by Jan. 31, 2020

The filing deadline for reporting amounts paid to independent contractors on Form 1099-Misc is due January 31, 2020. If you have paid an independent contractor more than $600 for services during the year, you are required to issue them a Form 1099-Misc with the amount you paid to them in Box 7 per Internal Revenue Code Sec. 6041(a) and 6041A(A). Penalties do apply for failure to file and/or late filing. In order to issue the independent contractors a 1099-Misc, you need to have their Name, Address, and SSN or EIN on file. To gather this data, send your list of independent contractors the IRS Form W-9 to complete and return to you.

Employers – W-2's also to be Issued by Jan. 31, 2020

If you have employees, Form W-2 must also be issued by Jan. 31, 2020 to each employee, as well as remitting a copy to the IRS, SSA, and WI.

What is "Reasonable Compensation"?

This is a growing issue that has been litigated in several court cases and has gained more attention from the IRS due to the large number of S-Corp businesses and the large amounts of money involved. Therefore, it is increasingly important to have documentation to substantiate what you pay yourself, as a S-Corp Shareholder for your services.

The question to ask and answer is this: "How much compensation would be paid at a similar company for this same position if held by a non-owner of the business?"

As defined by the IRS, reasonable compensation is "the amount that would ordinarily be paid for like services by like organizations in like circumstances" (Reg §1.162-7(b)(3).

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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Providing Tax Solutions for your Real Estate Biz

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.).

Couple Could Exclude Gain on Principal Residence Turned Investment Property: The taxpayers, a married couple, converted their principal residence to a rental property. After the property was destroyed by fire, the taxpayers received insurance proceeds and eventually sold the land on which the house was located. The IRS privately ruled that the Section 121 principal residence exclusion applied to the sale of the land. The excluded gain equaled the difference between the maximum limitation amount applicable to the taxpayers ($500,000) and the gain excluded under IRC Sec. 121 when the house was destroyed. In addition, the IRS concluded that the taxpayers held the property for investment for Section 1031 purposes. The fact that the taxpayers could exclude gain under IRC Sec. 121 on the sale of the property did not preclude them from deferring all or a portion of the remaining gain (if any) under IRC Sec. 1031. Ltr. Rul. 201944006.

Incarceration Isn't Reasonable Cause for Failure to File Return: The taxpayer, a former professional basketball player, was convicted of wire fraud for running a real estate Ponzi scheme. While incarcerated, he received a pension distribution of approximately $208,000. Because the taxpayer didn't file a return for the distribution year, the IRS prepared a substitute return that claimed the standard deduction and applied interest and penalties, including the 10% penalty tax under IRC Sec. 72(t). The taxpayer questioned the substitute filing, arguing that (1) his incarceration prevented him from preparing a tax return, (2) all taxes on the pension distribution were properly withheld, and (3) paying the owed amounts would pose a hardship on him and his family. The Tax Court sided with the IRS, holding that incarceration doesn't constitute reasonable cause for failing to timely file a return. In addition, because he didn't file a return, the taxpayer wasn't entitled to any itemized deductions. *Claude T. George* , TC Memo 2019-128 (Tax Ct.).

Nonprofit Status Revoked for Telemarketing Activities: A for-profit business relied heavily on telemarketing to promote sales of replacement windows and other home improvement services. Noting a decline in sales due to the National Do Not Call Registry, the company decided to form a nonprofit organization. The organization established a corporate sponsorship program that provided telemarketing opportunities for businesses (including the window company) to help generate leads and give back to charity. The IRS revoked the organization's nonprofit status, finding that the entity was not operated exclusively for exempt purposes within the meaning of IRC Sec. 501(c)(3) . The Tax Court agreed, holding that the organization was primarily engaged in generating sales leads to advance a commercial enterprise. The promised charitable donations were merely a function of the window company's success in securing business. Therefore, the entity did not qualify as an exempt organization under IRC Sec. 501(a) . *Giving Hearts, Inc.* , TC Memo 2019-94 (Tax Ct.).

Prior Month's Newsletters

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