Taxes for Real Estate Professionals

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

June 2019 ~ WiscoREIA

By Tina M. Kleckner EA, CAA

Upcoming Deadlines

June 17 – 2nd Quarter Estimated Tax Payments

Sept 15 – Business Extensions

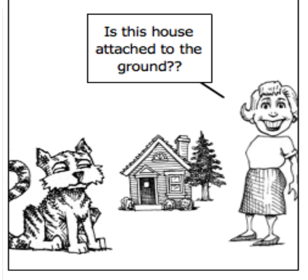
Oct 15 – Individual Extensions

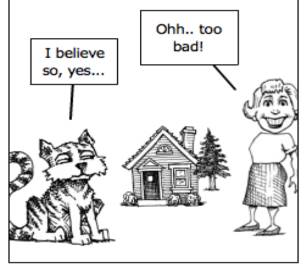
Business Expenses

Business expenses are usually deductible if the business operates to make a profit. To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that's common and accepted in the trade or business. A necessary expense is one that's helpful and appropriate for the trade or business. An expense doesn't have to be indispensable to be considered necessary. Business expenses include:

- **Business use of a home** – If part of the home is used for business, part of the home expenses may be deductible.

Kitty the Real Estate Agent by Danny Evatt





Prior Month's Newsletters

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

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Standard Mileage Rates 2019

Business = $0.58

Medical = $0.20

Charity = $0.14

Tax Reform

* Standard Deduction:
$12,000 Single
$24,000 Married Filing Joint
$18,000 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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These expenses may include mortgage interest, insurance, utilities, repairs and depreciation. Alternatively, a simplified method is available up to 300 square feet at $5 per square foot – a $1,500 deduction.

- **Business use of a car** – If using personal car for business, the business miles are deductible.
- **Meals and entertainment** – In general, 50 percent of the cost of business meals is deductible if the taxpayer — or an employee of the taxpayer — is present and the food or beverages aren't lavish or extravagant.
- **Rent expense** – Rent is deductible only if the rent is for property used in the trade or business. If they 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 a taxpayer borrowed for business activities.
- **Taxes** – A taxpayer can deduct various federal, state, local, and foreign taxes directly attributable to their trade or business as business expenses.

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IRS Mails Bills for Unpaid Taxes

IRS is mailing bills those who filed for 2018, have a tax balance due, but did not pay. If a tax return was filed but the amount owed are unpaid, the taxpayer will receive a letter or notice in the mail from the IRS. These notices, including CP 14 and CP501, which notify taxpayers that they have a balance due, are frequently mailed during June and July.

Taxes can be paid online, by phone or using their mobile device. Installment Payments are available for those who can't pay in full.

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20% QBI Deduction

The IRS expanded its Section 199A frequently asked questions (FAQs) from 12 to 33 questions and answers. A few of the common FAQs are:

Q: Does the deduction reduce self-employment tax?

A: No, the deduction does not reduce net earnings from self-employment.

Q: For a real estate professional, does the rental real estate qualify for this deduction?

A: The deduction is not based on whether the taxpayer qualifies as a real estate professional under section 469. Rental real estate may constitute a trade or business for purposes of the QBI deduction if the rental real estate:

- Rises to the level of a trade or business under section 162,
- Satisfies the requirements for the safe harbor provided by Notice 2019-07, or
- Meets the self-rental exception (i.e., the rental or licensing of property to a commonly controlled trade or business conducted by an individual or RPE).

Whether rental real estate rises to the level of a trade or business under section 162 depends on all the facts and circumstances. To be engaged in a trade or business under section 162, the taxpayer must be actively involved in the activity with continuity and regularity and the primary purpose for engaging in the activity must be for income or profit.

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Rehabilitation Credit on Historic Buildings

Historic building owners should remember that the rehabilitation tax credit offers an incentive to renovate and restore old or historic buildings. Tax reform legislation passed in December 2017 changed when the credit is claimed and provides a transition rule.

Here are some things that building owners should know about this credit:

- The credit is 20 percent of the taxpayer's qualifying costs for rehabilitating a building.
- The credit doesn't apply to the money spent on buying the structure.
- The legislation now requires taxpayers take the 20 percent credit spread out over five years beginning in the year they placed the building into service.
- The law eliminates the 10 percent rehabilitation credit for pre-1936 buildings.
- A transition rule provides relief to owners of either a certified historic structure or a pre-1936 building by allowing owners to use the prior law if the project meets these conditions:
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- The taxpayer owned or leased the building on January 1, 2018, and the taxpayer continues to own or lease the building after that date.
- The 24- or 60-month period selected by the taxpayer for the substantial rehabilitation test begins by June 20, 2018.
- Use Form 3468, Investment Credit, to claim the rehabilitation tax credit and a variety of other investment credits.

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Blog

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Recent News & Court Cases

IRS Comments on the Taxability of Per Diem Reimbursements: In a recent Information Letter, the IRS was asked to consider a waiver or other action on the taxation of per diem reimbursements for employees and contractors. The agency declined to act, explaining that Congress would need to take legislative action to change the current rules. In general, per diem reimbursements are not taxable if the taxpayer is away from home on a temporary work assignment. If the employee is assigned to a single location that is not his or her regular location, and the assignment is realistically expected to last (and does in fact last) for one year or less, the assignment is temporary. On the other hand, if an assignment away from home

in a single location is expected to last for more than one year, the assignment is indefinite and not temporary, regardless of whether it exceeds one year. Information Letter 2019-0003.

S Corporation Shareholder Unable to Deduct Theft Losses: The taxpayer owned 50% of an S corporation that purchased distressed real estate properties in southern California. Unfortunately, the transactions turned out to be part of a complex real estate fraud scheme. Although the taxpayer's colleague met with an attorney and investigator (and even tried to scam the fraud scheme), the company neither filed a lawsuit nor submitted title insurance claims. On his 2011 income tax return, the taxpayer claimed a substantial theft loss under IRC Sec. 165, which was disallowed by the IRS. The Tax Court sided with the IRS, finding that the company's prospect of recovery in 2011 was unknowable and nothing more than speculation and conjecture. The company had not engaged an attorney, filed insurance claims, or made any effort to recoup any of the losses. Therefore, the taxpayer's theft loss deduction was improper. *Donnovan McNely* , TC Memo 2019-39 (Tax Ct.).

Personal Residence Wasn't Converted to Rental Property: In 2005, the taxpayers moved into an apartment so their personal residence could be renovated. Due to the apartment's size, many of their belongings were stored at the residence. In 2008, the couple moved to another home. After renovations to the first home were completed, the taxpayers were informed that their homeowners insurance coverage would terminate if the home remained vacant. So, they rented the property to a friend for $500 a month (below market value). In 2013, the taxpayers sold the home and claimed a substantial loss on their tax return. The IRS disallowed the loss, claiming that the home was the taxpayers' primary residence. The Tax Court agreed, holding that (1) the taxpayers' move to the apartment wasn't motivated by a desire to renovate and sell the home as an income-producing asset and (2) the only reason for leasing the home was to satisfy the insurance company. *Carlos and Pamela Langston* , TC Memo 2019-19 (Tax Ct.).