

# Taxes for Real Estate Professionals

Integrity in Tax & Accounting

920-277-2991

www.integrityintaxllc.com

## August 2019 ~ WiscoREIA

By Tina M. Kleckner EA, CAA

### Extension Due Dates!

Sept 16 – Business Tax Returns

Oct 15 – Individual Tax Returns

### Tax Scams

A reminder that the IRS does not do any of the following:

- Call to demand immediate payment using



### Bonus Depreciation for Prior Years

The IRS has issued guidance that allows taxpayers to make a late bonus depreciation election for property acquired and placed in service after Sept. 27, 2017.

If you acquired rental property after Sept. 27, 2017, bonus depreciation can be taken. This is done by filing an amended tax return (IR-2019-135).

a specific payment method such as a prepaid debit card, gift card or wire transfer. Generally, the IRS will first mail you a bill if you owe any taxes.

- Threaten to immediately bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.

## 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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Address:

213 S. Casaloma Drive

Appleton, WI 54914

920-277-2991

- Ask for credit or debit card numbers over the phone.

Should you receive a phone call requesting or demanding any information from above, do not provide any personal information. Report IRS impersonation scams to the Treasury Inspector General for Tax Administration's IRS Impersonation Scams Reporting at this link - [https://www.treasury.gov/tigt/contact\\_report\\_scam.shtml](https://www.treasury.gov/tigt/contact_report_scam.shtml).



## S-Corporate Shareholder Compensation

Once S-Status is elected, owners become Shareholders of the business. Shareholders who provide services to the corporation are employees of the corporation and their compensation is subject to payroll taxes. The question is commonly asked "How much should I be paid?" Seems like a relatively easy question to answer – right? Oh, no, this question is anything but easy to answer and has been the topic of many court discussions over the years that we think it is worth reviewing annually. There is no rigid set of rules for measuring the

reasonableness of compensation. No definition of "reasonable" is contained in the Internal Revenue Code; the regulations provide only that reasonable compensation is an amount paid for like service by like businesses under like circumstances. Court cases have shown, however, that each situation must be resolved based on its unique facts and circumstances. Some Tax Court decisions have focused on the following:

1. Character and financial condition of the corporation;
2. Role the shareholder plays in the corporation, including the employee's position, hours worked, and duties performed;
3. Corporation's compensation policy for all employees and the shareholder's individual salary history including the corporation's internal consistency in establishing the shareholder's salary;
4. How the compensation compares with similarly situated employees of similar companies;
5. Conflicts of interest in setting compensation levels; and
6. Whether a hypothetical independent investor would conclude that there

is an adequate return on investment after considering the shareholder's compensation.

The courts have also considered additional factors in deciding whether the amount of compensation is reasonable, including these:

1. Employee's qualifications;
2. Size and complexity of the business;
3. Comparison of salaries paid to sales and net income;
4. General economic conditions;
5. Comparison of salaries to shareholder distributions and retained earnings;
6. Corporation's dividend history;
7. Whether the employee and employer dealt at arms' length;
8. Corporate intent; and
9. Whether the employee guaranteed the employer's debt.

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. This information can be found by searching [www.indeed.com](http://www.indeed.com) for positions that closely resemble the Shareholder's position in the same area.

Print a copy of the job description, position, and pay to keep with the business records that can be used to substantiate compensation if questioned.

Remember: The better the documentation kept by the business, the more likely that the compensation will withstand IRS attack.



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### No WI Sales Tax Holiday

As you may recall, last year, Wisconsinites enjoyed a week

when certain items were tax exempt, primarily back to school items were the focus of tax exempt. This year, however, there will be no such “Holiday”.

### Register Your Vacation Rental for WI Sales Tax

The lodging marketplace and short-term rental for rent of less than 29 days, are required to do the following:

- Register with WI DOR for lodging marketplace license
- Register for sellers permit, collect and remit sales tax to DOR
- Collect applicable room taxes and remit to municipality

The license application is Form S-231.

Common questions regarding lodging marketplace in WI are at –

<https://www.revenue.wi.gov/Pages/FAOS/Lodging-Marketplace-License-faq.aspx>



### 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%.



### 2019 Form 1040 Changes

There are likely to be some changes to the Federal Tax Form 1040 that we all file. Some of the most notable changes are:

1. Qualified Business Deduction (QBI) will have Form 8995 to attach.
2. Health Care coverage is no longer mandatory, the checkbox will be removed & you do not need to state whether you were covered.

A draft form can be seen at <https://www.irs.gov/pub/irs-dft/f1040--dft.pdf>



### Recent News & Court Cases

***IRS alerts virtual currency owners of non-filing consequences:*** The IRS is sending what it calls “educational letters” to

taxpayers that have been identified as not reporting virtual currency transactions or reporting them incorrectly ([IR-2019-132](#)). The IRS Letter 6173, Letter 6174, or Letter 6174-A are intended to help taxpayers understand their tax and filing obligations for cryptocurrency. The IRS says that by the end of August, it will have sent more than 10,000 of the letters.

The letters point the recipients to the IRS website and inform them which forms and schedules to use and where at the IRS to send them.

The only IRS guidance on virtual currency transactions is Notice 2014-21, under which the IRS treats cryptocurrencies as property, rather than currency, for federal tax purposes. The IRS announced that it intends to issue further guidance on the topic in the near future.

**IRS Can Rely on County Assessments to Allocate Real Estate Costs:** The taxpayers owned several rental properties in California.



To calculate their depreciation deduction for the year at issue, the taxpayers incorrectly included the cost

of both the land and the buildings. The IRS disallowed the portion of the deduction attributable to the land based on information from the Los Angeles County Office of the Assessor. The taxpayers disputed this approach, claiming that the county assessments were extraordinarily inaccurate and internally inconsistent. The Tax Court disagreed, finding that the county's allocations were reliable and persuasive. Therefore, the IRS's reliance on this information was proper. Sharon and Steve Nielsen, TC Summ. Op. 2017-31 (Tax Ct.).

#### **Revenue Ruling Addresses Qualified Opportunity Zone**

**Business Property:** The taxpayer, a Qualified Opportunity Fund (QOF), purchased a factory located in a Qualified Opportunity Zone (QOZ) for \$800x. \$320x of the purchase price was attributable to the building, and \$480x was attributable to land.

Within 24 months, the taxpayer plans to invest an additional \$400x to convert the factory into residential rental property. The IRS held that (1) the original use of both the building and the land didn't commence with the QOF; (2) a

substantial improvement is measured by the QOF's additions to the adjusted basis of the building; and (3) the QOF isn't required to separately substantially improve the land on which the building is situated. Therefore, the IRS found that the QOF will substantially improve the building because during the 30-month period beginning after the acquisition date, the taxpayer's additions to the building's basis (\$400x) will exceed its beginning basis (\$320x). Rev. Rul. 2018-29.

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