

Taxes for Real Estate Professionals

Integrity in Tax & Accounting

920-277-2991

www.integrityintaxllc.com

December 2018 ~ WiscoREIA

By Tina M. Kleckner EA, CAA

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

We recommend Shareholder compensation should be comparable to that of what the business would pay an

1099-Misc to be Issued by Jan. 31, 2019

A reminder for business owners that the filing deadline for reporting amounts paid to

Happy Holidays!

outside, third party person to perform the same tasks and duties. See our August Newsletter for a detailed article on Shareholder compensation.



independent contractors on Form 1099-Misc is due January 31, 2019. 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 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,

Standard Mileage Rates 2018

• • •

Business = \$0.545

Medical = \$0.17

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.

• • •

Address:

213 S. Casaloma Drive

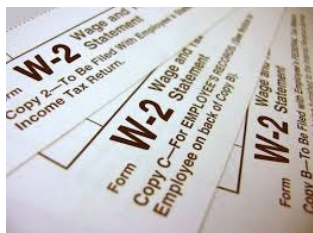
Appleton, WI 54914

920-277-2991

Address, and SSN or EIN on file. To gather this data, send your list of independent contractors the W-9 Form requesting they complete the information and return to you. We can help you review your list of vendors, determine which are independent contractors, and issue 1099-Misc on your behalf.



Employers – W-2's also to be Issued by Jan. 31, 2019



If you have employees, Form W-2 must also be issued by Jan. 31, 2019 to each employee, as well as remitting a copy to the IRS, SSA, and WI.



Employers – Pay those Payroll Taxes!

If you have employees that means you have payroll taxes. Make sure the payroll taxes for the business have been filed and PAID. The IRS is becoming much more aggressive in pursuing

employers that have outstanding payroll taxes.



The penalty for not remitting payroll taxes is 100% of the amount due.

Beginning in 2019, the IRS plans to use predictive analytics to quickly identify employers that are falling behind on their employment taxes. In addition to the IRS's programs, the Department of Justice has expanded the use of civil injunctions against noncompliant employers. The injunctions require delinquent employers to (1) timely deposit their payroll taxes and file their employment tax returns, (2) notify the IRS that the requisite deposits have been made, and (3) notify the IRS if the employer begins operating a new business. The injunctions also prevent defendants from assigning property or making payments to other creditors until the employment tax obligations accruing after the date of the injunction are paid.

The IRS has a program called IRS Repeater Trust Fund Taxpayer Program, to identify employers that repeatedly accrue unpaid employment

tax liabilities to enable it to take appropriate action to bring them into compliance with their filing and payment responsibilities. To be targeted, an employer must be in business, not be current with federal tax deposits, and have had at least two delinquent payroll tax returns within the immediate past two years.



Are Your Expenses Ordinary & Necessary?

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.

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



Know your tax filing status

It is very important for you to know what type of tax return your small business should be filing. Just because your business may be recognized as an LLC by the State of Wisconsin, your small business may not be a corporation for tax purposes. The general rule is this: The IRS considers 1 person-owned business as a disregarded entity for tax purposes, which means you should be filing Schedule C with your individual tax return. A business owned by two or more people automatically defaults to partnership status for tax purposes unless the election to be taxed as a corporation is made. To make the election, you file form 8832 to elect C-Corporation status and/or form 2553 to elect S-Corporation status which must be approved by the IRS. If an election is not made, the partnership files Form 1065 giving each partner a K-1 that is reported on that partner's individual tax return. If an election is made to S-Corporation, Form 1120-S is filed. Partners become known as Shareholders. Each shareholder receives a K-1 that is reported on that

shareholder's individual tax return.



Tax Relief for CA Wildfires

Tax Relief for Victims of California Wildfires: The IRS has provided tax relief for California wildfire victims residing in Butte, Los Angeles, and Ventura counties. The relief postpones various tax filing and payment deadlines that occur starting on 11/8/18. Affected individuals and businesses now have until 4/30/19 to file returns and pay any taxes that are originally due during the relief period. This includes (1) 2018 individual income tax returns and payments normally due on 4/15/19; (2) quarterly estimated income tax payments due on 1/15/19 and 4/15/19; (3) quarterly payroll and excise tax returns; and (4) returns of calendar-year nonprofit organizations that were extended to 11/15/18. In addition, penalties on payroll and excise tax deposits due on or after 11/8/18 and before 11/23/18 will be abated as long as the deposits are made by 11/23/18. The relief is automatically available to any taxpayer with an IRS address of record located in an area designated by FEMA as qualifying for assistance. CA-2018-13.



WI Sales Tax – Oct. 1

Beginning October 1, 2018, Wisconsin will require online sellers to collect and remit sales or use tax on sales of taxable products and services in Wisconsin. New standards for administering sales tax laws on online sellers will be developed by rule. The rule will be consistent with the Court's decision in *Wayfair*, which approved a small seller exception for sellers who do not have annual sales of products and services into the state of (1) more than \$100,000, or (2) 200 or more separate transactions. **Note:** Any small seller exception adopted will not apply to sellers with a physical presence in Wisconsin.

Providing Tax Solutions to
your Real Estate Biz

Sales ~ Flips ~ Rentals ~ Investments

Integrity in Tax & Accounting, LLC
Tina M. Kleckner EA, CAA

920-277-2991

Structure your deals tax-wise!

Have a Tax Question?

Submit your questions to:
info@integrityintaxllc.com
with WiscoREIA in the subject line.

Recent Court Cases

Taxpayer Sch. C Expenses Disallowed in Connection with Real Estate Investments:

In Mila Alemasov and Victor Popov v. Commissioner T.C. Summary Opinion 2007-130, Mrs. Mila Alemasov began an activity as a real estate finder and consultant that included she travel to Hawaii, Korea, China, and Las Vegas on behalf of clients to search for prospective real estate investment opportunities.



During the year, Mila did not earn any income for her services as a real estate consultant and finder. Upon filing the 2002 tax return, Mila reported a loss on Schedule C in the amount of \$31,261 from the real estate activity. The tax return was selected for audit in which Mila was requested to substantiate the deductions claimed on Sch. C of the tax return. When Mila did not provide the requested documents timely, the IRS issued a 30-day letter proposing to disallow all of the Sch. C deductions. Mila then protested the 30-day

letter but was unsuccessful at resolving the matter with the Appeals office. The IRS disallowed all of the Sch. C expenses as deductions for the reason that “Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown.” “You cannot claim deductions, credits, exemptions, or other tax benefits unless you can show that you meet all of the requirements to be eligible for them.”

In summary, failing to respond to the IRS’s request for documentation will disallow the deduction. The IRS’s determinations are generally presumed correct and then it is the taxpayer that bears the burden of proving that the determinations are in error. Deductions are a matter of legislative grace, and the taxpayer has the burden of proving entitlement to any claimed deduction.

Country Music Artist denied Sch. C Expense Deductions:
A former country music artist

lost in appeals court that disallowed her Sch. C losses from a music venue she owns. Among the factors that helped the court conclude that she didn’t intend to earn a profit are poor bookkeeping records, made no effort to reduce expenses, and did very little advertising. In addition, she didn’t follow expert advice she received on ways to make the venue profitable. And she had other sources of substantial income (Ford, 6th Cir.).

Education Expense Deduction Denied: Foreign Attorney Unable to Deduct Costs of U.S. LL.M.

Program: The taxpayer, a licensed attorney in Spain, moved to New York City to pursue an LL.M. degree at New York University. The degree allowed the taxpayer to take the New York State bar examination, which he passed in 2016. Following this, he worked as a visiting attorney for an international law firm in New York. On his income tax return, the taxpayer deducted the cost of his tuition as an itemized deduction. The IRS disallowed the deduction,

claiming that the L.L.M. degree qualified the taxpayer for a new trade or business. The Tax Court agreed, holding that although the degree improved the taxpayer's skills as an international attorney, it qualified him for a new trade or business (the practice of law in New York). Therefore, his educational expenses were nondeductible. *Enrique F.D. Valle*, TC Summ. Op. 2018-51 (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.

Common FAQ's are available at

<https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>.

A list of Wisconsin areas has been posted on our website at www.integrityintaxllc.com under Taxes For Real Estate Professionals.

Prior Month's Newsletters are available on our website at www.integrityintaxllc.com – click on Real Estate Professionals.



CALLING ALL PARENTS OF JUNIORS

Now is the time to start planning for college.

Call Chuck to schedule your FREE consultation!

920-585-4300

www.CollegeConnectors.com

College Connectors Our Process...Your Success

Follow Us on Social Media

Please Like and Follow us on Social Media!



Integrity in Tax & Accounting, LLC; Tina M. Kleckner



Integrity in Tax & Accounting, LLC



Tina Kleckner EA, CAA
@Integrityintax

Blog

Tina's Blog can be found on our website at www.integrityintaxllc.com – click on Tina's Blog.