

TAX TIPS FOR REAL ESTATE AGENTS - MILEAGE DEDUCTION

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Real estate agents leave a significant amount of money on the table because they don't maximize allowable deductions in their income tax returns. Working as an independent real estate agent definitely has its perks but just identifying tax deductions at tax time can become a cumbersome task. Additionally, complying with tax requirements to ascertain that deductions taken will not be disallowed if questioned requires special attention. We, at Navarro Acevedo, are here to help demystify realtor tax deductions. One deduction that always raises questions and eyebrows albeit its logical simplicity is the mileage tax deduction.

For many Realtors the more miles are put on their cars, the better they are doing. However, not every trip is deductible and not all automobile expenses incurred lead to a lower tax bill. As a general rule, travel to and from a principal place of employment is not deductible but if the main office is at home, which is the case for many Realtors, then the car related expenses incurred when leaving home for a showing or to get a listing are deductible.



"It doesn't matter how much you scoot around the office in your swivel chair...you can't deduct that as business travel."

Recognizing that keeping an exact record of car related expenses is a burdensome task, the IRS sets a "standard mileage rate" which factors in gas, wear and tear, and other expenses associated with driving. For 2018, the mileage rate is 54.5 cents per business mile driven. Note that the mileage rate incorporates all car related expenses including maintenance, lease payments, licenses, taxes, gas, depreciation and insurance. Taxpayers may, nonetheless, deduct tolls and parking expenses in addition to the standard mileage rate.

For example, if Ms. Realty Queen's car had 43,650 miles on January 1, 2018 and her odometer reads 66,650 miles on December 31, 2018, it follows that she drove 23,000 miles in 2018. Ms. Queen's task is not over yet as she needs to figure out how many miles were business related. If, out of the 23,000, 18,000 were business related, then Ms. Queen can take a business deduction of \$9,810 or 18,000 times 54.5 cents in her 2018 tax return. She can also claim deductions for parking and tolls as long as they relate to business travel. Nonetheless, no deductions for automobile repairs, maintenance, gas, lease payments, license fees and insurance may be claimed as those are already embedded in the standard mileage rate.

Although calculating the deduction is simple as taxpayers only need to multiply business miles driven times the standard mileage rate, the IRS requires taxpayers to keep a log of business miles driven. To facilitate keeping said log, Quickbooks and Everlance, as well as many other software and app developers, provide mileage tracking apps. Just search for mileage tracker in your phone's app store and you will easily identify at least one app that can help you.

Realtors may choose to quantify the actual auto expenses incurred rather than use the standard mileage rate method. If the taxpayer uses one particular car only for business then he or she may be able to deduct 100% of the expenses. However, since most self-employed individuals, such as Realtors, use the car for both business and personal purposes then they must prorate the expenses between personal and business use. As a general rule, however, the standard mileage rate is sufficiently generous but if the summation of the actual expenses incurred leads to a higher deduction, then the taxpayer should indeed select the highest deduction available to reduce Uncle Sam's share.

You may want to consult an attorney and/or CPA with experience in tax matters to ascertain maximizing your tax deductions while complying with tax requirements. As such, feel free to contact JP Navarro, for advice and guidance on how to navigate your specific tax conundrum. Feel free to send an e-mail to jnnavarro@nacpr.net for a consultation.

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