Makeover

With Jessica Morford, sales associate, Real Living All Florida Realty, Holly Hill

TAX STRATEGY

Keep More of Your Hard-Earned Money

It's not too late to save yourself from hours of sorting receipts.

In the last seven years, **Jessica Morford** has built a successful real estate career in the Daytona Beach marketplace. Now, the sales associate, with **Real Living All Florida Realty** in Holly Hill, wants to be sure she has a solid tax strategy in place as she takes her business to the next level. "With my growing business, I could really use some expert tax-planning advice," she says. "I have a great accountant for my annual income tax returns, but I want to look ahead now."

ENTER THE EXPERT

To assist Morford with her tax planning, *Florida Realtor*® contacted **Laura T. Keitel**, a certified public accountant (CPA) in Sarasota whose clients include many real estate professionals. "Since taxes are a significant portion of your business' expenses, a good strategy will result in significant financial benefits over time," she says.

1. Select the right business structure.

Morford dives right into the makeover session with a basic question. "What's the best type of company to form as a sales associate?"

The answer, Keitel tells Morford, depends on your personal and your business financial situation. "First, I recommend that you have a business attorney involved in this process, who works closely with your tax advisor," she says.

Keitel explains that the most popular structures include a C Corporation, which pays its own taxes, and an S Corporation, which passes income through to its owners. "Sometimes it may be better to file as a C Corporation, rather than an S Corporation, depending on your personal income tax bracket," she says. Another option is creating a Limited Liability Corporation (LLC), which can be formed with a single member or multiple members, and elect C, S or sole proprietorship tax status.

Now, Morford wants to know what happens to her payments from her broker if she incorporates. "You would give the company's name and EIN (Employer Identification Number) to your broker," Keitel says. "During the transition year, you would still get an IRS Form 1099 for any payments made to you personally before you established your company."

2. Consider the home office deduction.

Next, Morford wonders if she can claim the home office deduction on her tax return, even if her broker provides her a desk in his office. Keitel says the answer is yes. "Look at the time you spend at each location, and see if your home is really the principal place you do business," she says. "To claim the home office deduction, that part of your home must be used exclusively for business purposes. If your kids come in and watch TV while you're sitting at the computer, it's not exclusively a home office."

Keitel adds the home office deduction is calculated based on the square footage of the room used for the office to the en-

Jessica Morford, with Real Living All Florida Realty in Holly Hill, wants a tax strategy that grows with her business.

NOW YOU KNOW

With April 15 approaching, many real estate professionals may consider filing for an extension on their 2012 tax returns "But be aware that this is an extension to file, not an extension to pay," says Laura Keitel. "You are still responsible for paying 100 percent of your tax due."

"In this world nothing can be said to be certain, except death and taxes."

—Benjamin Franklin, early American political leader, writer, inventor, scientist and printer

tire square footage of the home. "Let's say your office is 10 percent of the home and you're paying $40,000 a year in mortgage interest, real estate taxes and utilities," she says. "In that case, you could qualify for a $4,000 deduction on your next tax return."

But Morford wonders if claiming the home office deduction would be a red flag for the IRS, making an audit of her return more likely. Keitel says that was the case years ago, but things are different today. "Many professionals are working out of their homes, especially in real estate," she says. "But you need to be able to substantiate that deduction in any case."

3. Keep detailed financial records.

Now, Morford has another question. "What if you have a business partner and split some of the costs," she says. "What is the best way to prove you paid half of those expenses?"

Keitel says the best approach is to get copies of those receipts, along with the checks you wrote as partial payments. "But your question raises another important point about the overall importance of record keeping," she adds. "You need to keep detailed financial records regarding all aspects of your income and expenses, as well as documents relating to any properties you own."

Morford then asks how long she needs to keep those records. "The general advice I give is to keep your tax returns and supporting records for seven years," Keitel says. "But you should keep the records relating to your home or investment properties indefinitely, even after a sale."

4. Make your estimated tax payments.

Next, Morford asks for some advice about making estimated tax payments. "I have never paid estimated taxes, because I have a lot of write-offs," she says. "My accountant says my net income has been too low to worry about those quarterly payments."

Keitel explains that as a general rule, Morford should plan to make four quarterly payments that equal what she owed for the prior year's taxes. "If you paid $16,000 in taxes last year, then you should plan on making four $4,000 payments this year," she says. "That way, you wouldn't have to pay penalties to the IRS, even if your income rose substantially. Of course, you would have to pay more in taxes, since you made more money."

To be on the safe side, Morford wonders how much she should put away from each commission check for those quarterly tax payments. "If your income is steady and you have children and other exemptions, I would say 20 to 25 percent of each check would be a reasonable amount, depending on your prior year tax bracket," Keitel says.

And Keitel reminds Morford to be sure to set aside money from any big commission checks that come in late in the year. "One of the biggest problems I see is that sales associates don't plan for those year-end sales, and they have to scramble to make those fourth-quarter estimated tax payments in January."

5. Track your expenses year-round.

Finally, Morford confesses to Keitel that she feels very disorganized when it comes time to file her annual tax return in April. "I keep all my documents in a big drawer and just lock myself in my room, going through everything to get it ready for my accountant," she says. "I know there must be a better way."

Keitel gives Morford two recommendations to help ease the tax-time crunch. First, she suggests getting a dedicated credit card and bank account just for her business. "Every time you purchase office supplies, use your credit card or business check, and you'll have a nice, easy-to-read record of those expenses at the end of the year."

But an even bigger timesaver, Keitel says, is moving from paper records to a bookkeeping application, like QuickBooks, that easily keeps track of income and expenses. "I can't emphasize enough how easy it is to use these applications," Keitel says. "It really changes your life, reducing the stress and the time you spend tracking everything."

So, was the makeover session helpful? "Absolutely," Morford says. "I've done some online research, but it's great to have the advice of an experienced CPA who knows about our industry. I'll be talking with my accountant and making some good decisions about the next stage of my business."

MEET THE EXPERT

Laura Keitel is a certified public accountant (CPA) who's served Sarasota businesses and individuals since 1987. Her clientele includes real estate brokers and sales associates, as well as bankers, attorneys and other professionals. She opened her firm, **Laura T. Keitel PA**, in 2011 after practicing for many years with larger CPA firms.

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