

## IRS Audits in Progress now for 2017-2020

### **Realtors/Brokers: Income Reporting and Deductions**

IRS is requesting all Realtors/Brokers report all income received from Brokers, Title Companies, Referral fees and any other income relating to Real Estate.

IRS's 1099 Misc and 1099 NEC shows income received, there is an OMB # either on top of form or bottom, this means IRS has this information and your reporting must match these amounts.

In an Audit, the agents will ask for your Closing Documents/HUD's and CDA or whatever you used to get your payment for Real Estate Income. IRS is now sending subpoenas to Title Companies before you are Audited to confirm your income, and your Banks will be requested to release bank statements to verify income. Please save cancelled checks, bank statements and credit card statements. Save receipts for 3-4 years. Actual receipts could be requested by some agents to verify credit card statements. Please note: Most IRS agents will not accept Excel spreadsheets. Try to use Quick Books Desk -Top version to prepare your accounting, profit/loss for tax preparation and audit.

On Hud -Closing Documents: There are many deductions available upon tax preparation on both Buyer's side and Seller's side.

Please ensure 1099 received is Net Income after all deductions for Broker's fees. Realtors are deducting the fees again which is the cause of the IRS audits. Some brokers give an analysis of the fees deducted from Gross Income such as advertising, realtor's fees/dues, CSS, MLS, transactions fees etc.

### New Areas of Audit

#### Unemployment Benefits during Covid & PPP Loans

Realtors who received **Unemployment Benefits during Covid** while working could be audited. IRS will need proof of time you were working as a Realtor by asking for your HUD's and CDA's or you will be required to pay back income received from Unemployment Benefits, assessed fines and penalties. Depending on agent, they could assess imprisonment for FRAUD! **Benefits must be returned if you were working during Covid.**

**2021-1040 PPP Loan Forgiveness** must now be reported including date of forgiveness for Tax Period Ending 12/31/21. If Loan was not forgiven, please enter information when Tax Return is prepared.

## Highly Audited Areas:

**Office at home- Form 8829** if used causes 5-7 other forms to be pulled. Rate of Audit for this form is 85% chance for 3 consecutive years. Please place your deductions on Schedule C instead. DO NOT USE ANY PORTION OF MORTGAGE INTEREST AND TAXES ON OFFICE AT HOME.

For Office at Home deduction, the Gain Exclusion will be **partially disallowed** when you sell your home. Married Filing Jointly is allowed a Gain Exclusion of up to \$500K, Single is allowed a Gain Exclusion of up to \$250K.

Remember: You can waive the 10% penalty for a Distribution for First Time Home Purchase up to \$10,000.00 from your Retirement.

**Foreign Income:** IRS need all income worldwide to be reported. Interest received from all sources must be included in the 1040. IRS is focused on \$10,000.00 in any bank account – please report.

**Foreign Assets:** IF over \$50,000.00 for even one day during the year, please report especially if you have rental income or dispositions of a rental property. Possible \$10,000 penalty and fines for non-reporting.

**Day care Form 2441:** If you are not able to produce the Federal ID # of the Day Care Provider, you must now indicate so that Dependent Care Expenses will be computed. Same for a Babysitter who refuses to give you her SS#. Deduction for 1 Child is \$4,000.00, 2 or more is max \$8,000.00

## Charitable Deductions/Donations to Charity – Cash Contributions

If you are not able to itemize and is using the Standard Deduction, you are now able to make an entry on Schedule A for Cash Donations to be deductible in addition to the Standard Deduction. Receipts for any amounts over \$250.00 will be required.

## Standard Deduction for 2021

Married Filing Joint: \$25,100.00      Single/or Married Filing Separately: \$12,550.00

Head of Household: \$18,800.00

\*\*\*Stimulus: \$14,000 allowed in 2021. If not received, notify your preparer\*\*\*

**Christina's Tax Service, Inc.**

**New Address:** 11757 Katy Freeway, Suite 1050

Houston, TX 77079

Main: (713) 781-8291 Fax: (713) 781-7758

Taxpayer Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_

Spouse Name: \_\_\_\_\_ Social Security Number: \_\_\_\_\_

**SIGNATURE REQUIRED-POSSIBLE \$10,000 PENALTY**

Due to current updates for reporting Foreign Bank and Financial Accounts (FBAR) you must now file a Form FinCen 114 electronically no later than June 30<sup>th</sup> if any of the following apply.

Any US citizen, resident, or entity that has financial interest in or signature authority over foreign financial accounts must file FBAR report if the **aggregate value of the foreign financial accounts exceeds \$10,000.00 at any time during the calendar year**. A financial account includes, but is not limited to, securities, brokerage, savings, demand, checking, deposit, time deposit, or other account maintained with a financial institution. It also includes a commodity futures or options account, insurance policy with cash value, annuity policy with cash value, and shares in a mutual fund or similar pooled fund.

Foreign financial accounts are financial accounts located outside of the United States. You must report any ownership in a foreign entity.

**It is mandatory that you answer the questions below, sign and return to Christina's Tax Service. If your answer is yes, please provide information regarding the account. Copies of bank statement including bank name, account number, address of financial institution, and bank balance.**

Did you or your spouse receive a distribution form, or were you a grantor or transferor for a foreign trust, pension?

- Yes
- No

Did you or your spouse have financial interest in or signature authority over a financial account such as a bank account, securities account, or brokerage account, located in a foreign country?

- Yes
- No

Do you or your spouse have any foreign financial accounts, foreign financial assets, or hold interest in a foreign entity?

- Yes
- No

Did you or your spouse carry \$10,000 in foreign bank accounts for even one day during the year?

- Yes
- No

Did you or your spouse have at least \$50,000 in foreign assets for even one day during the year?

- Yes
- No

\_\_\_\_\_  
Taxpayer Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Spouse Signature

\_\_\_\_\_  
Date

# Christina's Tax and Real Estate Services, Inc.

www.christinastaxservices.com

## Self-Employed Checklist Business Expenses

<b>Income</b>		<b>Expenses</b>	
Gross Receipts or Sales		Accounting	
Returns and Allowances		Advertising	
Other Income:		Answering Service	
		Bad Debts from sales or service	
<b>Cost of Goods Sold</b>		Bank charges	
Inventory at beginning of year		Commissions (\$600+ issue 1099-Misc)	
Purchases		Contract Labor (\$600+ issue 1099-Misc)	
Cost of Items for personal use		Delivery & Freight	
Cost of labor		Employee Benefit programs	
Materials and supplies		Health Insurance premiums	
Other Costs:		Insurance (other than health)	
		Interest: Mortgage-banks, etc (Form 1098)	
Inventory at end of year:		Other:	
<b>Professional Fees &amp; Dues</b>		Janitorial	
Appraisal Fees		Laundry & cleaning	
Association Dues		Messenger Service	
Chamber of Commerce / Memberships		Miscellaneous	
Continuing Education		Office expense	
Legal & Professional Fees		Outside services	
License Fees		Parking & tolls	
Seminars & Conventions		Postage	
Other:		Printing	
		Rent or Lease: Vehicles, equipment	
		Other:	
<b>Travel, Meals &amp; Entertainment</b>		Repairs	
Airfare		Security	
Business Gifts up to \$25 per person		Federal start-up costs (\$5,000 maximum)	
Car Rental/Parking		Supplies	
Hotels		Taxes: Real estate taxes	
Meals		Payroll taxes	
Marketing		Other	
Networking		Telephone	
Promotions		Tools	
		Uniforms	
		Utilities	
		Wages	
		Website setup & Hosting	
		Other Expenses:	

**Christina's Tax and Real Estate Services, Inc.**  
**www.christinastaxservices.com**  
**Realtors, Brokers and Professionals**  
**Business Expenses**

<b>Auto Travel (In miles)</b>		<b>Supplies &amp; Expenses</b>	
Client Meetings		Advertising, Signs, Flags & Banners	
Continuing Education		Attorney & Appraisal Fees	
Escrow & Loan Office Trips		Bank Charges	
Out of Town Business Trips		Business Meals (enter 100%)	
Showing Property		Client Development	
Parking Fees (\$)		Client Related Expenses	
Tolls (\$)		Commissions / Rebates ( <b>over \$600 - 1099</b> )	
Other: _____		Credit Report Fees	
<b>Travel - Out of Town</b>		Equipment Repair	
Airfare		FAX & Computer Supplies	
Car Rental		Film & Processing	
Parking		Gifts (Business \$25 per Person)	
Bus, Subway, Train, & Taxi		Insurance - E. & O. and Liability	
Lodging (do not combine with meals)		Lock Boxes, Keys & Locksmith	
Meals (do not combine with lodging)		Map Book & Map Software	
Porter, Bell Captain		Marketing	
Laundry		Multiple Listing Service	
Bridge & Highway Tolls		Networking	
Telephone (Business Portion)		Office Assistant / Payroll Expenses	
Other: _____		Office Expenses	
<b>Professional Fees &amp; Dues</b>		Open House Expenses	
Association Dues		Photocopy Expenses	
Chamber of Commerce / Memberships		Postage & Shipping	
Legal & Professional Fees		Promotions	
License Fees / Other RE Dues or Fees		Referrals/Finders Fees & Rebates ( <b>CDA</b> )	
Seminars & Conventions		Rent / Office / Desk Fees	
<b>Telephone Expenses</b>		Repairs to Sell Listed Property	
FAX Transmissions		Stationery	
Cellular (Business Portion)		Other: _____	
Pay Phone & Toll Calls		<b>Equipment Purchases</b>	
DSL/Internet/Website/Hosting		Answering Machine	
Other: _____		Calculator	
<b>Continuing Education</b>		Camera	
Correspondence Course Fees		Computer Equipment	
Materials, Supplies & Textbooks		Copy Machine	
Seminars/Motivational Tapes		FAX Machine	
Other: _____		Printer	
		Recorder & Pager	
		Telephone	
		Modems and computer peripherals	
		<b>Date purchased and cost Required for Above</b>	

## **Business Deductions Realtors & Self Employed**

1. **Meals & Entertainment** – **HIGHLY audited!** original receipts including credit cards or checks- Business purpose. **Your meals are not deductible unless you are entertaining a business client.**
2. **Marketing, Advertising, Business Promotions, Networking, & Client Development**
3. **Travel & Lodging** – must establish a business connection- IRS may ask for Airline Tickets.
4. **Seminar, Continuing Education, Conventions** – Real Estate or investment.
5. **Real Estate Dues, Subscriptions, Professional Memberships** – net of 1099. **Try to obtain a letter from your broker stating whether these items were deducted prior to issuance of your 1099.** **Supra Fees, Lock Box fees and other transactions.**
6. **Desk Rental Fees -Broker or Office space rental.**
7. **Errors/Omissions Insurance. Penalty & fines are not deductible.**
8. **Cell Phone** – consider itemized billing statement. Business line is allowed if you have two lines at home, one can be deducted as business use. **DSL and Internet Services** is allowed.
9. **Bank Charges** for a business account, **Credit Card processing fees** and **NSF charges.**
10. **Parking and Tolls** – **EZ tag**, request itemized billing statement- per vehicle.
11. **Legal, Professional, Accounting, Consulting** including **Incorporation fees**
12. **Bonus, Prizes, Awards, (Rebates on Commissions and Referral Fees- over \$600 issue 1099).**
13. **Health and Disability Premiums, Medicare Premium** – deductible at **100%**
14. **Office and Storage Rental, Postage.**
15. **Interest on Business Loans** including **Interest on Business Credit Cards, Vehicles used for business, Equipment, Machinery, Furniture and Fixtures.**
16. **Utilities** for office use, including **Security and Alarm**, do not include Telephone as a utility.
17. **Rental of Business Equipment, Furniture, Fixtures and Vehicles.**
18. **Website** set up, monitoring and hosting expenses. Amortization may be necessary.
19. **Wages, Salaries, Commissions, Fees** paid to Outside Service Providers-Cash is not deductible.
20. **Brochures, Presentation Folders, Printing, Signs, Banners and Open House** items used for promotion of your listings- **Camera Equipment** or other **Advertising Aids/Drones**
21. **Uniforms** identifying your brokerage or realtor association by use of Logo, Badges and Cleaning of those uniforms. Regular clothing /suits are not considered uniforms and not deductible.
22. **Business Gifts up to \$25.00 per person per year.**
23. **Wrapping Expenses of your vehicle** used to advertise your business- cannot be removable sign
24. **Office at home deductions** if used **more than 50% of your time spent on Real Estate Business activities. Do not file or use form 8829- Highly Audited- Deduct expenses on Schedule C.**
25. **Janitorial expenses, Freight, Shipping, Delivery and Messenger Fees.**
26. **Vehicle expenses** must be allocated per vehicle if more than one is used- Personal usage disallowed. **Cannot exceed more than 85% business use** unless a corporation vehicle.
27. **Assistants** – **Mandatory to be on payroll**, either by you or your Broker- W2 if not a realtor
28. **Contributions to Retirement Plan** – **401K, IRA, SEP-IRA** including **HSA** or other plans.
29. **Client related expenses-** **Staging, Repairs** on client's property, **Home Warranty** expenses
30. **Continuing Education, Seminars & Conventions, Hotel, Meals & Lodging, Uber/Transport Svc**

31. **Additional Gear** allowed as a deduction for Agents in Rural Areas – **Steel Tip Boots allowed.**
32. **Safety Protection- Gun Renewal Fees or Purchase of Weapon-** allowed if you can prove that you were a victim. **Security animal/dogs** are allowed as protection with proof that is mandatory.
33. **Janitorial Expenses-**Listing Property, make ready to sell.
34. **Extended General Liability Insurance** - necessary for all Realtors if not Incorporated- deductible. Please note- your Broker may not offer this coverage. **Provides protection in the event of an injury. A judge can overrule depending on the severity of the injury as in LLC cases)**
35. **Contract Labor-** Issue 1099 if services are over \$600.00 (Highly Audited)
36. **Advertising & Lead Generation Expenses** -deductible but Auditable depending on the expenses incurred.
37. **License Fee Renewal.** Fines and penalties not deductible.
38. **Charitable Donations-** IRS may move these deductions to Schedule A as an Itemized deduction.
39. **Materials and Supplies-**used in the production of Sales or Services.
40. **Property Management-** Consider keeping a separate Bookkeeping and do not comingle these expenses with Real Estate Sales expenses.
41. **Quick Books Accounting:** Under **Statute of Fraud**, **Bookkeeping** is important for protection and is essential in Audits. Note: **Spreadsheets (Excel)** may not be allowed and accepted by some IRS agents in an Audit.
42. **Unemployment Benefits received** – (Due to Covid 19), Self Employed individuals applied, filed and received unemployment benefits while working. IRS has begun these audits for repayment of Unemployment Benefits. **Exemption of 10,200 per person is allowed for 2021.**
43. **PPP Loans: Criminal Investigations Division of IRS** is currently auditing the receipt of PPP Loans and its eligibility. Due to extensive fraudulent applications, enforcement includes huge fines and imprisonment.
44. **Non- Reporting of Interest and Investments in Foreign Countries** – **Failure to file FBAR, form 114** has an initial penalty of \$10,000 to millions of dollars in files.
45. **Crypto currency, Bit coin and other currency such as offshore dealings is heavily audited currently.**
46. **Casualty Losses: Due to Texas Snowstorm-** IRS is auditing some of these returns due to Fraud, please retain photos, video of damages, insurance reports, insurance payments for 3 years.
47. **Rebates on Penalty – late filing** You can request a **One Time Penalty Abatement** due to Covid19 by filing **IRS form 843**. IRS goes back **3 years to ensure Compliance** was maintained to waive the penalties. Interest is not abated.

## **TREC Rules regarding Incorporation**

**(Realtors are licensed by TREC as an Individual, not as A Corporation).**  
**If you are a Broker, you must notify TREC that you have formed a Corporation and include your new EIN# on the notice to ensure TREC has verification of your Corporation and 1099 can now be issued using your Corporation Federal ID # instead of your SS#.**

**\*\* Special Rules on reporting for Tax Preparation re: Issuance of 1099 Misc and reporting income to reduce Taxation and Audit Prevention \*\***

1099's will be issued to the Realtor under his or her SS #, not a Corp. EIN unless you are a Broker per your license with TREC. Income must be identified and cross reference on both individual tax return and Corporation tax returns.

IRS must be notified and income must be identified both on personal 1040 return and on Corporate - 1120S by a Note on each return to verify income for year earned in current year to be the same as your 1099.

Since Broker is authorized to issue 1099's to You as a Realtor, by use of your SS# and not your Corporation EIN, A note must be made both on 1040 and your Corporation identifying where the allocation of income is reported.

If you incorporated during the year, 1099 will be issued for the entire year and income must be allocated and prorated with notes identifying where the income is reported and how much is reported on the schedules.

Report all additional income received from other sources such as income received from Title Companies etc.

**Trec will not be responsible for Errors and Omissions if you notify individuals that you are an Officer of your Corporation or you are the President.**  
Remember, you are licensed by TREC for all your Real Estate Transactions in the State of Texas. Errors/Omissions insurance protects you as a Realtor.

Professional Liability Insurance is allowed to offer additional protection for Officers/Directors of Corporations.



# Rental Real Estate Rental Expenses (Per Property)

<i>Auto Travel (In miles)</i>		<i>Utilities and Insurance</i>	
Trips to Bank		Hot water heater	
Trips to Property		Real Estate Taxes	
Picking up Supplies for Rental		Interest Expense	
Car Washes / Towing		Rental Charges for home equip.	
Tolls / Parking		Home Owners Insurance	
Vehicle Insurance		Heat / Gas	
Other: _____		Hazard Insurance / MIP Insurance	
Address: _____		Electricity	
City, State & Zip: _____		Water & Sewer / Septic System	
Income: _____		<i>Office Expenses</i>	
Days Rented: _____		FAX Supplies	
<i>Repairs &amp; Maintenance</i>		Paper and Toner	
Repairs and Maintenance		Computer Software	
New Carpentry		Bank Fees	
Painting / Electrical / Plumbing		Check fees or checks	
Landscaping / Gardening		Photo copy Expenses	
Snow Removal / Porter Fees		Safe Deposit Box	
Garage Repairs / Generators / Boilers		GPS / Key Map	
Cleaning & maintenance		Multiple Listing Service	
Tools and Supplies		Office Expenses	
Trash Removal		Computer software and Peripherals	
Improvements (Property)		Postage & Shipping / Freight	
Other: _____		Marketing / Networking	
<i>Professional Fees &amp; Dues</i>		Advertising / Promotions	
Accounting		Internet / Website	
Legal		Other: _____	
Architect Design		<i>Equipment Purchases</i>	
Commissions		Answering Machine	
Other: _____		Calculator	
<i>Telephone Expenses</i>		Tools	
Telephone (Business Portion)		Computer Equipment	
Cellphone (Business Portion)		Copy Machine	
Other: _____		FAX Machine / Printer	
<i>Other Expenses</i>		Printer	
Advertising		Vacuum Cleaner / Wet-Dry Vac	
Cost and Date of Purchase for property		Generator	
Land value		Washer / Dryer / Refrigerator / Microwave	
Other: _____		(Need date purchased and cost)	

## **Types of Corporations, Audit Risk, Tax Rates and Liability Protection in the event of a lawsuit.**

	<b>Audit Risk</b>	<b>Tax Rate</b>	<b>Liability Risk</b>
<b>S Corporation</b>	<b>0-2%</b>	<b>0%</b>	<b>100%</b>
<b>C Corporation</b>	<b>50%</b>	<b>35-56%</b>	<b>100%</b>
<b>LLC-1 owner</b>	<b>85%</b>	<b>43.3%</b>	<b>Limited</b>
<b>Partnership</b>	<b>50%</b>	<b>0%</b>	<b>Limited</b>
<b>LLC- 2 Owners</b>	<b>85%</b>	<b>43.3%</b>	<b>Limited</b>
<b>Self Employed</b>	<b>85%</b>	<b>43.3%</b>	<b>None</b>

### **Benefits of S. Corporations**

**No Taxation on Corporation's Net Profit.**

**No IRS Audit if Compliance is followed.**

**100% Liability Protection is allowed if Compliance is followed.**

## **S. CORPORATION BENEFITS & RULES & COMPLIANCE**

**Officers/Directors of the Corporation must take a payroll when Income is received. This is Mandatory for S. Corporation.**

- 1. All Income earned from the date of Acceptance of Corporation formation must be deposited in the Corporation's Bank Account. Deposits are considered income unless otherwise stated.**
- 2. Payroll must be set up by a reputable firm allowing IRS to determine if Compliance is followed- same for TWC. PAYCHEX is highly recommended by IRS, CPA Board & NAEA.**
- 3. Officer's Compensation and Salaries must be on Payroll- On 1120S Corporation return, IRS looks for an amount representing Officer's Compensation. Without a numeric amount, an Audit is provoked for Non-Compliance. W2 MUST BE ISSUED AT YEAR END.**
- 4. IF CHECKS ARE WRITTEN PRIOR TO PAYROLL DATE, PLEASE TAKE THE AMOUNT AS AN ADVANCE OR A LOAN. CALL PAYROLL COMPANY LATER TO HAVE TAXES WITHHELD. IF YOU FORGET TO HAVE TAXES WITHHELD, THE AMOUNT WILL BE TAXED AT 43.3% ON PERSONAL RETURN - 1040 IF AUDITED.**
- 5. Withdrawals in the form of Dividends - CANNOT exceed Payroll/Wages- Please contact your Accountant to determine what portion can be distributed and when available.**
- 6. Corporation must retain a Profit after Dividends are taken. If a Loss exists after Dividend Distribution, IRS will REVERSE Dividend and tax distribution at 43.3%. Dividend cannot be distributed unless Officers receive Payroll. Violation will cause your Corporation to be voided by IRS.**

7. **Bonuses:** Should be on payroll since taxes are withheld. Rules apply different from Wages. You can elect the amount of taxes to be withheld.
8. **Health Insurance:** Benefits deductible at 100% for Premiums not actual medical expenses.

**Personal Expenses:** should not be paid from Corporation, take a Salary to pay personal expenses. This includes payment for Personal Income Taxes.

**Retirement Plan Contributions to 401K, SEP-IRA, IRA & MSA**  
Deductible by the Corporation, not taxable to the Officers/Directors or Employees as Employee Benefit.

**401K - \$19,500 per person plus \$6,500.00 catch up if age 50+.**

**SEP-IRA -Maximum contribution is \$58,000.00 limited to 25% of Wages per year. No Catch up allowed.**

**IRA: Traditional or Roth Contribution \$6,000.00 per year, catch up \$1,000.00**

**Do not use a Corporation Check to pay the following items:**

**Take a Salary from Corporation and Deposit in your Personal Bank Account to pay these listed**

1. **Personal Home Mortgage (Homestead)**
2. **Life Insurance**
3. **Personal Expenses**
4. **Personal Income Taxes- 1040 taxes must be paid from your personal funds, not Corporate!**

**Do not Deposit, Withdraw, Purchase cashier's checks, or Wire Transfer \$10,000.00 in any one day.**

**IRS has a limit of this which can cause a flag for Money Laundering Rules. Same rules apply to making payment to anyone in the exact amount of \$10,000.00.**

## S. CORPORATION BENEFITS- DEDUCTIBLE BY CORPORATION

### **Mandatory Rule:**

**Officers/Directors of the Corporation must take a payroll when Income is received.**

- 1. All Income earned from the date of Acceptance of Corporation formation must be deposited in the Corporation's Bank Account. Deposits are considered income unless otherwise stated.**
- 2. Payroll must be set up by a reputable firm allowing IRS to determine if Compliance is followed- same for TWC. PAYCHEX is highly recommended by IRS, CPA Board & NAEA.**
- 3. Officer's Compensation and Salaries must be on Payroll- On 1120S Corporation return, IRS looks for an amount representing Officer's Compensation. Without a numeric amount, an Audit is provoked for Non-Compliance. **DO NOT WRITE CHECKS FOR OFFICERS or EMPLOYEES AND CALL PAYROLL COMPANY LATER TO HAVE TAXES WITHHELD. IF YOU FORGET TO HAVE TAXES WITHHELD, THE AMOUNT WILL BE TAXED AT 43.3% ON PERSONAL RETURN - 1040.****
- 4. Withdrawals in the form of Dividends - CANNOT exceed Payroll/Wages- Please contact your Accountant to determine what portion can be distributed and when available. Corporation must retain a Profit after Dividends are taken. If a Loss exists after Dividend Distribution, IRS will REVERSE Dividend and tax distribution at 43.3%. Dividend cannot be distributed unless Officers receive Payroll. Violation will cause your Corporation to be voided by IRS.**
- 5. Bonuses: Should be on payroll since taxes are withheld. Rules apply different from Wages.**
- 6. Health Insurance: Benefits deductible at 100% for Premiums not actual medical expenses.**

7. **Personal Expenses:** should not be paid from Corporation, take a Salary to pay personal expenses. This includes payment for Personal Income Taxes.
8. **Retirement Plan Contributions to 401K, SEP-IRA, IRA & MSA**  
**Deductible by the Corporation, not taxable to the**  
**Officers/Directors or Employees.**
9. **401K: Contributions from the Corporation up to \$19,500 per person**  
**plus \$6,500.00 catch up if age 50+. SEP-IRA -special rules apply.**  
**Maximum contribution is \$58,000.00 limited to 25% of Wages per year.**  
**No Catch up allowed. IRA: Traditional or Roth Contribution \$6,000.00**  
**per year, catch up \$1,000.00**
10. **Business Deductions & Charitable Donations – should be paid from**  
**Corporation.**

**Do not use a Corporation Check to pay the following items:**

Take a Salary from Corporation and Deposit in your Personal Bank Account to pay these listed

1. **Personal Home Mortgage (Homestead)**
2. **Life Insurance**
3. **Personal Expenses**
4. **Personal Income Taxes- 1040 taxes must be paid from your**  
**personal funds, not Corporate!**

**Do not Deposit, Withdraw, Purchase cashier's checks, or Wire Transfer**  
**\$10,000.00 in any one day. IRS has a limit of this which can cause a**  
**flag for Money Laundering Rules. Same rules apply to making payment**  
**to anyone in the exact amount of \$10,000.00.**

**Do not deposit or withdraw any amount of \$999.00 or**  
**\$999.51 since the bank usually will round up to \$10,000.00**

**(By 2.00 pm of that day, 5-7 members of the Federal Gov't will be**  
**notified).**

## **Sub S Corporation Deductions**

1. Returns, Allowances, Refunds
2. Cost of Goods Sold: Purchases of Materials & Supplies, Outside Service Contractors
3. Compensation to Officers
4. Salaries & Wages to Employees
5. Repairs & Maintenance
6. Rental expenses - Real and Personal property
7. Taxes & Licenses, Payroll Taxes, Franchise Taxes paid for previous year, Personal Property Taxes, Excise Taxes and Sales Taxes, Real Estate Taxes on business property
8. Interest Expenses- Business related
9. Depreciation expenses
10. Advertising, business promotions, marketing, networking.
11. Pensions, profit-sharing, other retirement plan contributions.
12. Employee benefits programs.
13. Business Gifts Deductible at \$25.00 per person per year
14. Insurance- Health, Worker's Compensation, General Liability, other vehicles and equipment Insurance.
15. Janitorial expenses
16. Laundry & Cleaning of Uniforms not suits or business attire.
17. Legal & Professional Fees, Tax preparation fees
18. Meals & Entertainment
19. Office Expenses, Postage, Freight & Shipping
20. Organizational Expenses (\$5,000) max deduction
21. Outside Services, Contractors expenses
22. Printing, Brochures, manuals, banners, stationery, business cards, envelopes, fliers, signs.
23. Vehicle wrapping expenses for advertising & promotion
24. Security/alarm,
25. Office supplies- pens, paper, ink, cartridges, drinking water, coffee, tea, creamers, sugars etc.
26. Telephone & communication, Cell Phone, Fax Lines, DSL
27. Tools and small equipment.
28. Travel, Hotel and other lodging.
29. Seminars & Convention
30. Continuing Education, license renewal, Dues, Subscriptions
31. Utilities for use of home office – Business use %
32. Vehicle Expenses: Leased vehicle- % of business use of monthly payment, gasoline, repairs, maintenance, insurance, parking, tolls, excise tax, sales tax, registration fees, towing, extended warranty expenses, tires, battery, parking & tolls.
33. Vehicle Expenses: Purchased Vehicle- Actual expenses including sales tax except monthly payment which is not a deduction. The cost of the vehicle if less than 3 years old 34.(Office Equipment- Need dates purchased, cost , & description for depreciation, Office Furniture & Fixtures, Building sign, Capital Improvement, ADA renovations for disabled individuals, office renovation & reconstruction. Date purchased, cost and description of all assets, equipment, furniture and fixtures)

## **VEHICLE EXPENSES - DEDUCTIONS: Heavily Audited**

Keep a mileage log or diary available for IRS audit to verify **mileage driven for business during the year**. **You must own vehicle** to be able to deduct expenses. Purchase / Sales document is valid proof. If vehicle is leased, you must provide documentation verifying lease agreement.

Document Mileage Driven - Use Tax-bot software, Mileage IQ etc. **Write down your odometer mileage when you fill up for gasoline on the receipt. Keep records for 3-4 years.**

IRS requires documentation of **Total Mileage Driven during the year and Business Portion**. This allows for % of business deductions.

### Vehicles- methods of deduction

\*Lease Method

\*Standard Mileage Method

\*Actual Method

You must document mileage driven for business and total mileage driven for entire year to attain the business % usage for all methods!

### Lease Method

You can deduct vehicle expenses under the following

Monthly Payment based on % of Business use plus

Actual Expenses- Gasoline, repairs, maintenance, insurance, parking, tolls, car wash, extended warranty & towing based on Business usage.

\*Standard mileage rate cannot be used under a lease method.

\*Depreciation is not allowed under a lease since you do not own the vehicle.

### Actual Method

(Purchased / Own vehicle)- Title must be under corporation name to be deductible at 100%. If not, do not deduct more than 85% or actual business use. Do not use 00 at the end of any deduction.

**Deduct actual expenses based on % of business use**

- 1. Gasoline**
- 2. Repairs & Maintenance, oil changes, tires, batteries etc.**
- 3. Insurance, personal property tax, ad valorem tax**



**4. Warranty, GPS system, parking, tolls, towing & car wash**

**Standard Mileage Rate - 2021**

**Business mileage rate - 56c per mile**

**Medical mileage rate - 16c per mile**

**Charitable mileage rate - 14c per mile**

**Allowed under Actual method if you do not have receipts. You must own vehicle to deduct the standard mileage rate.**

**Depreciation can be combined with Actual expenses under the Actual method.**

**Types of Depreciation**

**Section 179 Depreciation - up to \$ 1,050,000 first year placed in service.**

**Regular Depreciation over 5 years for Vehicle- use straight line method in case you dispose of the vehicle within 5 years, you would not have to recapture any depreciation taken before 5 year disposal.**

**Section 179**

**Deduct the entire cost of asset as an expense all at once for assets placed in service in the 1<sup>st</sup> (Initial Year) of use or indicate what amount is deductible depending on level of income earned and reported. Depreciation is limited to the level of income. Vehicle cannot be over 3 years old.**

**Special /Bonus Depreciation**

**50% or 100% of the cost of the vehicle is allowed to be deductible.**

**Electric Vehicle/Hybrid Vehicle**

**Follow same rules. Credit for purchases of vehicle is based on the registration and date purchased. Tesla allows credit base on registration number of the vehicle.**

**Start- up Expenses**

**Must be amortized over 5 years.**

**Maximum amount allowed to be deducted is \$5,000.00 in the initial year.**

**Remainder is carried over to 4 subsequent years or elect to carry over all expenses to year income is earned.**