

## Easily-Missed Tax Deductions that Every Realtor and Entrepreneur Should Know

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### Year-end Tax Planning Deserves Year-around Consideration

The reason so many IRS deductions go unclaimed - business owners don't know about them. Or they don't know about them early enough in the year to collect necessary information as they go along.

As a person running your own operation, tax consequences need to influence how you conduct business, day in and day out. Where to spend - or not. How to structure transactions. When to act. How much you must pay in income taxes can easily determine whether your operation turns out to be profitable for the whole year. You're entitled to claim every expense and write-off the law allows. That's money in your pocket.

As you read on, take a bow for those you're already doing. And resolve to benefit from others that fit your situation (which now won't pass you by). There's still time to include these tax-saving deductions for your 2005 Federal tax return.

### Section 179 Property - Personal Property Write-off

Receive an up-front write-off of up to \$20,000 for personal property purchased for use in the business. That covers computers, printers, office furniture, fixtures, etc. It's no longer necessary to depreciate the cost over the asset's useful life, since you can expense the entire purchase price the year the asset is acquired.

Notice that this deduction cannot be used for personal property like appliances and furniture in residential rental property, however. But it would apply for such equipment in commercial rentals.

### Travel Expenses

The Internal Revenue Code defines travel expenses as the "ordinary and necessary" expenses incurred while traveling away from home for your business, profession or job.

They include transportation, baggage, meals, lodging, laundry, telephone calls, tips. Travel expenses do not include expenses for entertainment or meals (below).

Regulations require that business travel expenses be substantiated by evidence like diaries, logs, receipts, paid bills and expense reports. You must separately report each expense for transportation, lodging and meals. Indicate the date you left and returned for each trip, and the number of days away spent on business. Note down your destination and the business reason for the trip, or what business benefit you expected to gain.

### Entertainment Expenses

The IRS restricts your ability to write off the cost of meals and entertainment. Unlike other expenses, only 50% of what you actually spend can be deducted as business expense. In my experience, Realtors too frequently under-claim entertainment expenses they're entitled to take.

Avoid the risk of scrutiny by keeping certain information for each deduction:

- Date and time
- Place
- Amount claimed
- Relation to the person or event
- Anything else relevant

There are several areas where the 50% reduction does not apply. So break those figures out and write them off 100%.

- Transportation to and from an event
- Open houses for listings
- Events to reward employee performance
- Business gifts or incentives up to \$25 per customer or client

#### Home Office Deduction

You may write off the portion of your home used regularly as the office of your business. Deduct a percentage of the utilities, repairs, maintenance and depreciation. The tricky part - that area must be use exclusively for business purposes. And you cannot also have another off-site office where you conduct business. This topic is so important for Realtors (and widely misunderstood), that I'll devote a future article to this.

#### Put Family Members on the Payroll

Hire family members to work for the business. Pay them for the work done at the rate you'd pay someone else to do it. Minor children, your spouse, grandma, etc, can help with necessary tasks - answer the phone, cleaning and maintenance, record keeping, distributing flyers, performing computer tasks, etc. Keep detailed records of their tasks and hours. And the person does have to do the work. The numerous advantages of involving family members in the business go way beyond saving taxes. And since they really earned it, the "kiddie tax rules" do not apply.

#### Get in the Habit of Finding Legitimate Deductions

Taxes won't go away. But by claiming every deduction you're entitled to, you can cut them down to size.

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#### **Short note about the author**

Chris Bird Conducts 150 seminars a year for Real Estate and Financial professionals Wealth building, financial planning, residential rentals, tax strategies, accounting Certified Financial Planner (CFP) IRS Enrolled Agent [Chris@ChrisBirdSeminars.com](mailto:Chris@ChrisBirdSeminars.com).

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Author: Chris Bird

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