

# THG

## Thoughts

Insight. Ideas. News.

BRIEFING

Insights for high  
producing real estate  
agents

### **Partners in Success: High production agents need high performance CPA expertise**

We work with some real estate agents that have been described as “rock stars” by their clients who love them, recommend them to others, and who would not make a decision without their input. They are hard-charging, savvy professionals who excel at relationship development, prevail despite turbulent times and are singularly laser focused on sales. We like their style - and appreciate all that they’ve taught us.

We’ve worked in the real estate industry for more than fifty years and it’s a special area of expertise for our firm. Over more than five decades, we have learned what highly successful real estate agents need in terms of accounting, tax and advisory services to maximize their success. We are delighted when they frequently describe our relationship as “trusted advisor” or as “my outsourced financial department”. It speaks to the type of teamwork we’ve seen lead to remarkably successful results all around.

Top priority lessons we learned from our high powered real estate agent clients include:

- They are completely absorbed in their business – so we work to make essential financial and compliance activities as convenient, turn-key and automated as possible;
- They are deeply committed to success - and like a streamlined operation that does not “waste” their time on business functions that are essential but easily left to others with special expertise;
- They are smart and appreciate good advice – so provide the insight and guidance that helps to profitably grow their business.

Understanding that top producers need to devote the majority of their time to their core business, we have become able partners at helping them to streamline their on-going financial operations into processes and systems that ensure their best bottom line results. The daily operations of an effective agent, as well as good decisions about long-term planning, need to be managed in a way that is convenient, repeatable, and adaptable as needs change and growth occurs. We recommend the following highlights as good reminders and insights for successful agents motivated to ensure a consistently successful operation.

#### **Expense Tracking**

“Business step #1” for a real estate agent is to open a bank account to segregate commission income and business expense activity from personal finances. Request a debit card and/or credit card and use them exclusively for business purposes. By the way, do not use cash to pay for business expenses because lost receipts mean lost deductions. Talk with your trusted advisor to make sure which types of disbursements are deductible as business expenses. Also, we recommend using an accounting software system to classify expenses that run through the bank account. Bank statements and credit card statements can be downloaded directly into accounting software making data input more efficient – and the most software enables budget to actual reviews and comparative period analysis.

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### **Understand Total Tax Computation**

Tax deductions matter! An agent's net income is subject to both income tax and Self-Employment Tax. The income tax is computed on commission income net of expenses and a graduated tax rate system. The 2016 graduated Federal & Illinois income tax rates range from 0%-43% depending on net income level. The Self-Employment Tax is computed by applying a rate of 15.3% to net income taking into account some adjustments. (While uncertainty currently exists, it is possible that that future income tax rates may move higher.) Every dollar of tax deduction can have a significant effect on your total tax liability so work with your trusted advisor to understand the tax computation.

### **Retirement Planning**

A retirement contribution is a means of putting away money for retirement while reducing income subject to income tax. The most common plans are the Traditional IRA (\$6K limit in 2016) and a Self Employed Pension Plan (SEP) allowing contributions up to about 20% of your net income (\$53K limit in 2016). You have 3.5 months after the end of the year to open a Traditional IRA account and make a contribution and up to the due date of your tax return, including extensions, to open a SEP retirement account. There are other options that may allow for a larger contribution but they must be in place prior to end of the year. Meet with your trusted advisor to evaluate which type of plan is best for you.

### **To Incorporate or Not Incorporate**

The decision about whether or not to incorporate has no absolute answer. The corporate structure can provide a level of legal liability protection. A corporate structure may enable an agent to avoid a portion of Self Employment Tax. However, the corporate structure can require additional expenses including the use of a third party service to prepare required payroll and other business fees. A corporation's net income can be subject to additional corporate level state income taxes. If you do not choose to incorporate, be sure to understand your insurance coverage relative to liability issues. Once again, we suggest talking with your trust advisor to evaluate your particular situation.

### **Home Office**

The value of the home office deduction is not necessarily in converting a portion of house related expenses such as utilities and insurance to business expenses. The most significant value lies with the home office's effect on the business portion of auto usage. If your home qualifies as your office, every mile you drive from your home for business purposes is considered a business mile. If you office outside of your home, the mileage from your home to your office is considered a non-deductible commuting mile. This difference in the business usage computation can have a dramatic impact on your automobile expense deduction. Discuss the home office opportunity with your trusted advisor.

### **Issue Form 1099s**

If an agent pays \$600 or more to a service provider, a Form 1099 must be filed and copy sent to the Department of Treasury. There are exceptions to who must be issued a Form 1099 and there are significant penalties for not issuing Form 1099s. Your accounting software and expense tracking system should be setup to track total annual payments disbursed to a single service provider to make Form 1099 preparation more efficient. You should utilize your trusted advisor to make sure you are properly complying with the Form 1099 rules.

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### **Reconcile Form 1099 Received From Brokerage**

The brokerage firm will issue a Form 1099 to an agent stating annual gross commission income. Do not just accept the amount shown on the Form 1099 as the gross taxable income. Compare your commission income to your business bank account deposits. There are instances in which the brokerage reduces an agent's commission payment by expense charges. The Form 1099 may be based on your gross commission number not taking those deductions into consideration. If you don't do the reconciliation, you may be overstating your commission income for tax purposes.

### **Advice from the Front Lines**

Even a cursory review of these highlights illustrates how a high producing agent can be sidetracked – perhaps even overwhelmed - by the vast complexity of accounting and tax requirements necessary to operate an effective and profitable business. So, we summarize what we've learned over the past 50 years from our clients who are high powered agents this way: Find the right CPA firm to be your trusted partner and use them to help successfully grow your business. We've lived this advice with many high end producers who swear to it.

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### **About The Hechtman Group**

Since 1961, The Hechtman Group (THG) has provided CPA and consulting services to its clients. THG specializes in accounting, tax, attest, advisory and outsourced services designed for growth-oriented small businesses. THG is noted for its PRISM Services which provide outsourced CFO/Controller services to fast-paced companies on the move. The firm is recognized for helping its clients to consistently achieve their goals and for delivering highly responsive services. THG serves a variety of cross-industry clients as well as offering five decades of experience serving the real estate industry.