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Self Employment Income & Tax

- Income with no withholdings
- ► Income subject to additional 15.3% tax (employer & employee share of Social Security & Medicare tax)
- ► Tax planning is ideal to avoid surprises
- Most likely need to pay estimated taxes (15th of April, June, September & January)

Example: Donna is self-employed. After deducting business expenses, her net self-employment income is \$100,000. Her SE tax and deduction for one-half of SE tax are computed as follows.

1) Self-employment income	\$100,000
2) Multiply line 1 by 92.35 %	\$92,350
2) CE (N. 10: 1 1: 01 15:20/	011120

3) SE tax. Multiply line 2 by 15.3%\$14,130

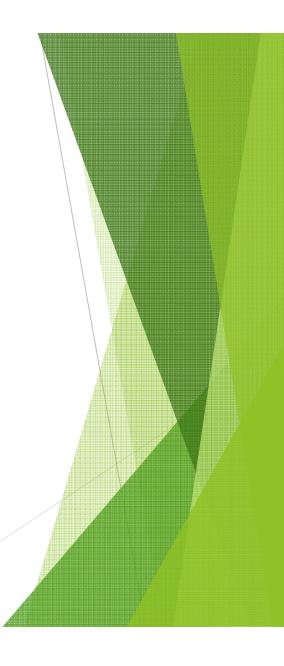
This tax is in <u>addition</u> to Donna's ordinary income tax. If she was single this could be an additional \$15,000 in ordinary Fed & CA tax (ordinary tax # can vary dramatically).

Total taxes of close to \$29,000 when taking into account SE tax.

Estimated Taxes

- ► General rule:
 - ▶ 100%/100% of prior year's tax (safe harbor), or
 - ▶ Must pay 90% of current year's tax throughout the year
- ▶ Pay with vouchers by mail (1040-ES & 540-ES) or online (CA can require)
- ▶ Penalties & interest related to underpayment (1st time & reasonable cause abatement)
- Pay taxes as you earn your income

2019 Estimat	ed Payment Dates for Individuals	
Installment	Tax Period Covered	Due Date
First	January 1 to March 31, 2019	April 15, 2019
Second	April 1 to May 31, 2019	June 17, 2019
Third	June 1 to August 31, 2019	September 16, 2019
Fourth	September 1 to December 31, 2019	January 15, 2020



Business Deductions

- Must be both ordinary and necessary
- Business deductions reduce income subject to income & S/E tax dollar for dollar
- ▶ Business use of home
- ► Vehicle deductions (standard mileage rate .58/mile)
- ▶ Pro-rata deductions (e.g. cell phone, internet, etc.)
- Health/Dental/Vision insurance can be deductible (this does not reduce SE tax)

Record Keeping

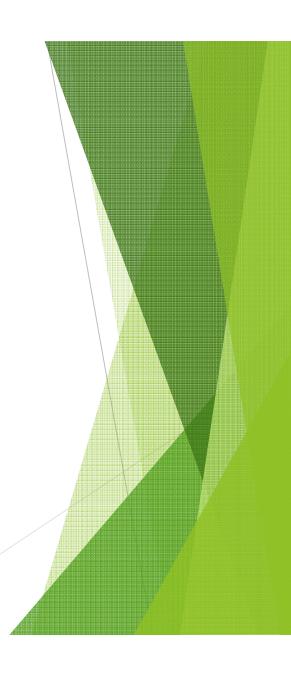
- Must be able to substantiate deductions
- ► Keep receipts (statements not sufficient)
- Scanned copies of receipts are sufficient
- Avoid co-mingling funds
- Separate bank & credit card account(s)
- Accounting software or apps are ideal (QB's, Expensify, Wave, etc.)

Advertising	
Appraisal Fees	
Business cards	
Bank charges	
Clerical	
Client Gifts	
Courier Service	
Fees:	
Commissions Paid	
Escrow/Loan Fees	
Referrals	
Film/Processing	1
Flowers/Cards	
Keys/Locksmith	
Lock Boxes	
Map Books	1
Office Expense	
Open House	
Rent	
Sales Assistants	
Repairs	
Signs, Flags, Banners	
Food	
Software	
Photocopying	
Printing	
Tools	
Stationery	

Dues
E & O Insurance
Legal Fees
Licenses
Memberships
Multiple Listing
Publications

Seminars	
Continuing Ed	
Resumes	
Other	

	-
Attache Case	
Calculator	
Desk	
Camera	
Chair	
Filing Cabinet	
Cell Phone	
Recorder	
Telephone	

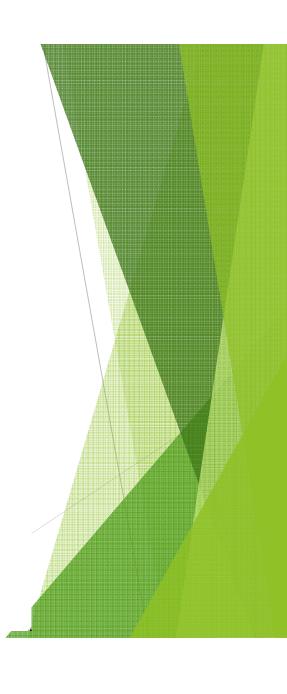


Business Use of Home Expenses

Some expenses are deductible whether or not a taxpayer uses his or her home for business. Others are deductible only if the home is used for business.

Deductible Regardless	Deductible Only If for Business**	
Real estate taxes.* Mortgage interest.*	Homeowner's insurance. Rent.	
Casualty losses.*	Repairs and maintenance.	
 Qualified mortgage insurance premiums, 	Security system. Utilities and services.	
if available.	 Depreciation (deductible after applying deduction limitation to above expenses). 	

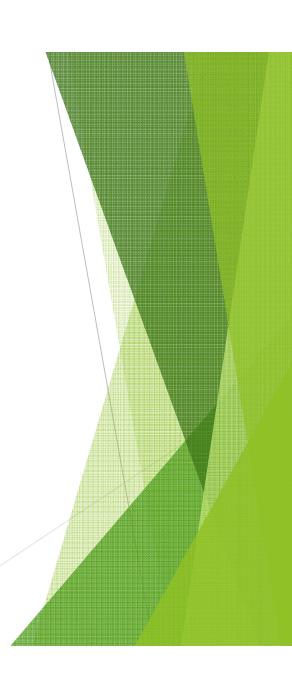
- * Deductible as an itemized deduction, subject to limitation.
- ** Deductible as a business expense pro-rated for the amount of the business use of the home



Vehicle Deductions

- 1. Standard mileage (.58/mile), or
- 2. Actual expenses (includes depreciation)
 - Only includes business percentage use
 - Must be > 50% business use to avoid depreciation recapture
- Both methods must maintain a mileage log (manually or using an app such as Mile IQ, QuickBooks's, or others)

			Mileag	e aı	nd Expense Log		
Make:		Model:	Year:	Star	ting mileage on Jan. 1:	Ending mileage on Dec. 31:	
Date	Miles	Start/End Point of	or Paid To		Reason for Trip/Business F	Purpose for Expense	Amount
		1					



Qualified Business Income (QBI) Deduction

- New business tax break added with the TCJA
- ▶ 20% deduction on business profit
- ► Can be limits based on income, wages paid & business assets (planning can maximize this)

2019 Threshold Amount and Phase-In Range				
	Single, HOH	MFJ	MFS	
	Taxable Income	Taxable Income	Taxable Income	
Threshold Amount	\$160,700	\$321,400	\$160,725	
Phase-in	\$160,701	\$321,401	\$160,726	
Range	- \$210,700	- \$421,400	- \$210,725	
Full limitation applies*	\$210,701 and	\$421,401 and	\$210,726 and	
	higher	higher	higher	

^{*} For specified service trade or business, no QBI deduction.

Entity Selection

- Sole Proprietor
 - ► Schedule C included on personal tax return
 - Hire children (no payroll tax if <18 yrs. old & little to no income tax or filing requirement)
- S Corporation
 - ▶ Profit not subject to SE tax
 - ► For higher income taxpayers can help to maximize 20% QBI deduction
 - Can provide liability protection
 - Must pay shareholder reasonable wages
 - ► Separate filings, fees & taxes

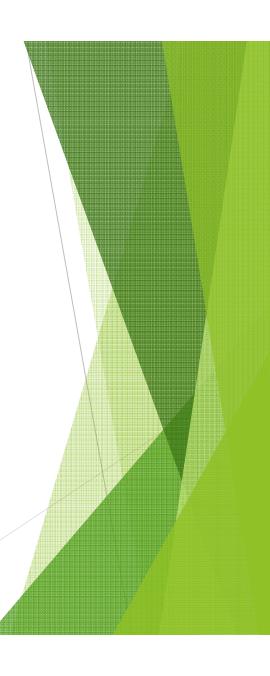
Real Estate Tax Breaks

- ► Like Kind Exchanges (IRC Sec. 1031)
 - ▶ Use an Exchange Intermediary
 - ▶ Identify replacement properties within 45 days
 - ▶ Purchase replacement property within 180 days
- ► Transfer of CA property tax base (if over age 55)
 - ► Generally must "buy down" & within the same county
- Exclusion of gain on Sale of Principal residence (IRC Sec. 121)
 - Must own & live in home as principal residence for 2 out of last 5 years
 - Partial Exclusion-change in place of employment, health, or, unforeseen circumstances
- Rental Property
 - Depreciation
 - ▶ Up to \$25,000 rental loss (non real estate professionals)
 - Losses can be limited based on income (phase-out between \$100K-\$150K)

Real Estate Professionals*

- ▶ Not subject to passive activity rules on rental real estate
 - ▶ Perform > 750 hrs. of service in real estate
 - More than ½ personal services performed in all trades or business were in real estate where taxpayer materially participated

*Real property trades or businesses include development, construction, acquisition, conversion, rental, operation, management, or brokerage of real property.



Retirement Options

- SEP IRA (can set up & fund by filing date as late as Oct. 15th)
- Solo 401K (can contribute more. Must be established by Dec. 31st)
- Simple IRA no tax return filing requirement
- ► Defined Benefit Plan can fund large amounts
- Traditional IRA contribution by April 15th
- Roth IRA no deduction but distributions are tax free contribution by April 15th

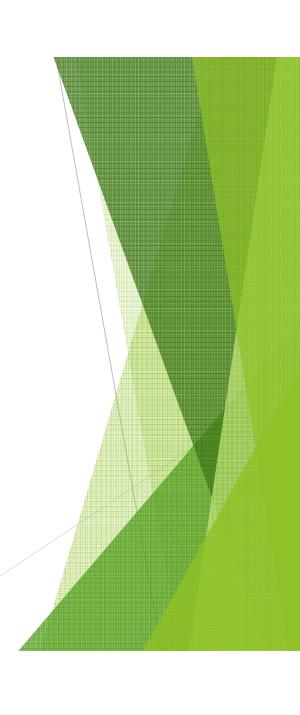
2019 Retirement Plan Limits

401(k)/403(b) Deferral Limits	Roth IRA Phas
Under age 50\$19,000	MFJ
Age 50 and over\$25,000	Single, HOH
IRA Contribution Limits	MFS
Under age 50\$6,000	SIMPLE Defen
Age 50 and over \$7,000	Under age 50
IRA Deduction Phaseout Range if	Age 50 and over
Covered by Employer Plan	Qualified Retir
MFJ\$103,000-\$123,000	Profit sharing/
Single, HOH\$64,000-\$74,000	limits
MFS\$0-\$10,000	Defined benefi
Spouse not	Compensation
covered \$193,000 - \$203,000	'

Roth IRA Phaseout Range
MFJ\$193,000-\$203,000
Single, HOH \$122,000 - \$137,000
MFS\$0-\$10,000
SIMPLE Deferral Limits
Under age 50\$13,000
Age 50 and over\$16,000
Qualified Retirement Plans
Profit sharing/SEP
limits 25%/\$56,000
Defined benefit plan limits \$225,000
Compensation limits \$280,000

Tax Scams / Identity Theft

- ► IRS-Impersonation Telephone Scam
- ► Phony IRS Emails —"Phishing"
- ► Social Security Scam



Questions - feel free to contact me

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www.wehnercpa.com (schedule online)

Flyers & other resources on my site - wehnercpa.com/realtors

