

# REALTOR TAX SECRETS

GUIDE



MAXIMIZE YOUR FINANCES,  
MINIMIZE YOUR TAXES



# HELLO THERE!

As a real estate agent, your time is spent closing deals, serving clients, and growing your business. But when tax season arrives, managing taxes can be daunting. Understanding how to optimize your finances and maximize deductions is key to keeping more of your hard-earned money.

The “Realtor Tax Secret’s” guide is here to help. Whether you’re an independent agent or part of a brokerage, this guide will equip you with the knowledge to navigate tax complexities, avoid common mistakes, and develop a simple tax strategy tailored to your business.

Let’s dive in and get you prepared for tax success!

*Dorcas Brown*

Founder, Dorcas Brown



# ABOUT THE AUTHOR

Dorcas Brown is a seasoned Business & Financial Strategist and the founder of Fulton, Brown & Co., a firm dedicated to helping professionals and business owners manage their finances with confidence and clarity. With over 15 years of experience, Dorcas has a passion for empowering real estate agents to navigate the complexities of their finances and maximize their earnings.

Drawing on her extensive knowledge of tax strategies and her personal experience in the real estate industry, Dorcas created the “Realtor Tax Secret’s” guide to simplify taxes for agents like you. Her mission is to ensure that real estate professionals are equipped with the tools they need to succeed—both in their businesses and in their financial lives.

When she’s not strategizing financial solutions, Dorcas enjoys spending time with her family, exploring the outdoors, and sipping wine after a long day. She believes that with the right knowledge and support, real estate agents can thrive, keep more of their hard-earned money, and achieve their financial goals.



“YOU CAN’T GO BACK AND CHANGE THE BEGINNING, BUT YOU CAN START WHERE YOU ARE AND CHANGE THE ENDING.” – C.S. LEWIS



# CHOOSING THE RIGHT BUSINESS STRUCTURE

Your business structure significantly affects your tax obligations, liability, and how you manage your finances. At Fulton, Brown & Co., we help real estate agents make informed decisions about which structure best supports their business goals. Here are your primary options:

- **Sole Proprietorship:** The simplest structure, ideal for agents just starting out. Income flows through to your personal tax return, but you're subject to self-employment taxes on all earnings.
- **Limited Liability Company (LLC):** Offers flexibility with taxation options, whether you choose to be taxed as a sole proprietor, partnership, or corporation. It provides liability protection, which can be crucial in a litigious industry like real estate.
- **Corporation (C Corp):** Offers flexibility with how it is taxed, creates a complete separation between you and your business as long as your Corporate Veil is in place, and allows you to be on payroll. Taxes is filed and paid on the corporate level and your income from payroll is taxed on the personal level.

Please note that S Corp is NOT a business structure it is a tax classification that can be chosen by an LLC or Corporation. This tax classification is not available to all people as there are a few restrictions for selecting it.

# HOW IS YOUR BUSINESS TAXED?

Each business entity carries a default tax classification which identifies how your business will be taxed. Below you will find the main 4 types of tax classifications.

**01 SOLE PROP/DISREGARDED ENTITY**  
This tax classification is attached to the Sole Proprietorship, Independent Contactor, Unregistered Business, and LLC business structures. In this classification you will file a Schedule C to claim your income and expenses on your taxes and that profit/loss will flow through to your personal return. In this classification you will pay a self employment taxes but you will also receive a self employment tax deduction.

**02 PARTNERSHIP**  
If your business has multiple members (multiple owners of an LLC, multiple partners in a General Partnership) then you will file a form 1065. For this tax classification you and your partners will split the profit or loss from your business, based on your ownership percentages. Once you have completed the 1065 each partner will receive a K1 to be filed on their personal tax return.



## 03 C CORP

This tax classification is the default tax classification for a Corporation but can be elected by an LLC. In this classification the business itself will file a form 1120 and pay the taxes owed, if any. The shareholders, who are either on payroll or taking distributions, will receive a W2, 1099-DIV or both to claim on their personal taxes.

## 04 S CORPORATION

This classification is not the default of any business structure NOR is it a business structure it is an elected tax classification. The business structures that can elect this tax classification are LLC and Corporation. Upon election this tax classification will file a form 1120S to claim the businesses profit/loss. Once the 1120S is completed the shareholders (owners) will receive a K1 to claim the profit or loss from their business (the profit/loss flows through to the shareholder).

If the shareholders were on payroll or took a distribution then they would receive a W2, 1099DIV, or both from the business that they would also claim on their taxes.

Check out FAQ  
(Frequently Asked  
Questions) to find out  
more information.

Need help deciding  
which business entity  
or tax classification is  
best for YOU then book  
your initial consultation  
with us today!

# INCOME TRACKING & MANAGEMENT

Real estate agents typically have multiple streams of income, including commissions, referral fees, bonuses, and sometimes income from property investments. Keeping track of all these income sources is crucial for accurate reporting and tax planning.



## 01 COMISSIONS

This is your primary income source, and every cent counts. Properly tracking your commissions, noting the brokerage splits and fees deducted, are crucial for reporting accurate income and deductions when filing your return.

## 02 REFERRAL FEES

Whether you're referring a client to another agent or receiving referrals, these payments count as income and need to be tracked and reported.

## 03 BONUSES & INCENTIVES

Any bonuses or incentives from your brokerage, such as performance-based bonuses, need to be included in your income reporting. Including bonuses and incentives from selling a new construction home.

Use tools like QuickBooks or hire us for your bookkeeping services to ensure accurate and up-to-date income records.

We offer custom bookkeeping solutions to help you streamline your processes and focus on selling homes, not balancing books.



# DEDUCTIONS FOR REAL ESTATE AGENTS

Deductions are one of your besties when it comes to reducing your tax liability. The IRS recognizes that as a real estate agent, you incur various business expenses. Here are some of the most beneficial deductions, but remember, meticulous record-keeping is key to claiming them.

What is a Deduction? A tax deduction allows you to lower your taxable income which in turn will lower your tax liability. Please keep in mind that tax deductions LOWER your income which in turn could hurt future big purchases. Depreciation is a type of tax deduction but is not considered an expense when it comes to true income.

## VEHICLE EXPENSES

Real estate agents spend a lot of time driving to meet clients, show homes, and attend closings. The IRS offers two methods for deducting vehicle expenses:

- **Standard Mileage Rate:** For 2024, the rate is 65.5 cents per mile. Track your business miles using a log or app. This method is easy and often beneficial if you drive a lot for your business.
- **Actual Expenses:** Deduct the actual costs of operating your vehicle for business purposes, including gas, maintenance, insurance, and depreciation. This method requires detailed records but can offer more significant deductions, especially for higher-value vehicles.



## HOME OFFICE DEDUCTION

If you use part of your home exclusively for your real estate business, you can deduct a portion of your home expenses, including rent or mortgage interest, utilities, insurance, and maintenance costs. The IRS offers two methods:

- **Simplified Method:** Deduct \$5 per square foot, up to a maximum of 300 square feet.
- **Actual Expense Method:** Deduct the actual percentage of your home expenses based on the percentage of your home used for business.

## MARKETING AND ADVERTISING COSTS

Your marketing efforts are crucial to attracting clients. Deduct expenses related to:

- Website creation and maintenance
- Online advertising (Google Ads, social media ads)
- Print advertising (flyers, postcards, brochures)
- Business cards and signage

## PROFESSIONAL SERVICES

Expenses related to professional services are fully deductible. These include:

- **Tax Preparation Fees:** Deduct the costs of working with your tax consultant at Fulton, Brown & Co.
- **Legal Fees:** Deduct attorney fees for business-related services, such as contract review or dispute resolution.
- **Consultants:** If you hire consultants, like us, for business growth, strategic planning, or coaching, these expenses are deductible.

## CONTINUING EDUCATION AND LICENSING

As a real estate agent, staying updated on industry trends and maintaining your license are essential. You can deduct:

- Real estate courses and seminars
- License renewal fees
- Professional development programs



# UNLOCKING TAX CREDITS

In this section, we'll dive into the often-overlooked world of tax credits available to real estate agents. Tax credits are powerful tools that can directly reduce your tax liability, putting more money back in your pocket.

## ENERGY-EFFICIENT PROPERTY CREDIT

- If you make energy-efficient improvements to your home or investment properties (e.g., installing solar panels, geothermal heat pumps, or energy-efficient windows), you may be eligible for a federal energy credit. This can apply to both personal residences and rental properties.

## WORK OPPORTUNITY TAX CREDIT (WOTC)

- If you hire employees from certain targeted groups, such as veterans, long-term unemployed individuals, or those receiving government assistance, you may qualify for the WOTC. This credit provides a significant incentive for hiring from these groups, reducing your tax liability.

## **RETIREMENT SAVINGS CONTRIBUTIONS CREDIT (SAVER'S CREDIT)**

- If you contribute to a retirement plan like an IRA or Solo 401(k), you may be eligible for the Saver's Credit, which is designed to incentivize low- and moderate-income taxpayers to save for retirement. Depending on your income level, the credit can be worth up to 50% of your contributions, with a maximum credit of \$1,000 (\$2,000 for married couples).

## **QUALIFIED PLUG-IN ELECTRIC DRIVE MOTOR VEHICLE CREDIT**

- If you purchase a qualifying electric vehicle for business use, you may be eligible for a federal tax credit of up to \$7,500. This credit applies to the purchase of new electric vehicles, which can be particularly valuable for real estate agents who drive frequently for showings and meetings.

## **AMERICAN OPPORTUNITY CREDIT AND LIFETIME LEARNING CREDIT**

- If you're continuing your education or taking professional development courses related to real estate, you may be eligible for the American Opportunity Credit (for the first four years of post-secondary education) or the Lifetime Learning Credit (for any type of further education). These credits can help offset the cost of tuition, fees, and course materials.



# UNDERSTANDING SELF-EMPLOYMENT TAXES

Self Employment taxes does not apply to businesses taxed as a C Corp or S Corp



As a real estate agent, you're considered self-employed, which means you're responsible for both income and self-employment taxes. Self-employment taxes cover Social Security and Medicare contributions, which amount to 15.3% of your net earnings (12.4% for Social Security and 2.9% for Medicare).

## SELF EMPLOYMENT TAX BREAKDOWN

- ✓ **Income Taxes:** Paid on your net income after deductions.
- ✓ **Self-Employment Taxes:** Paid on your net income (Social Security and Medicare).

You can deduct the employer-equivalent portion of your self-employment taxes (half of the 15.3%) from your gross income, which reduces your adjusted gross income (AGI). Proper planning can help you manage these taxes effectively and avoid surprises.



# QUARTERLY ESTIMATED TAXES

## Avoid Penalties with Regular Payments

Please note that no matter the tax classification you can absolutely pay into your Quarterly estimated taxes.

Since taxes aren't withheld from your commissions, you're responsible for making quarterly estimated tax payments to the IRS. These payments include your income and self-employment taxes. Failing to pay enough throughout the year can result in underpayment penalties and interest.

To calculate your quarterly tax payments, calculate what your profit is for the quarter, multiple that number by .20 (20%) and pay this amount into your quarterly taxes using Form 1040-ES.

At Fulton, Brown & Co., we assist you in estimating and planning these payments to avoid penalties and ensure you're on track with your tax obligations.

# RETIREMENT PLANNING

Save for your future while  
saving on your taxes.

## 1 SEP IRA

- Contribute up to 25% of your net earnings from self-employment, with a maximum contribution of \$66,000 (for 2024).
- Contributions are tax-deductible, and funds grow tax-deferred until withdrawal.

## 2 SOLO 401(k)

- Allows contributions both as an employee and an employer.
- For 2024, the contribution limit is \$66,000 (or \$73,500 if you're over 50 and make catch-up contributions).
- Contributions are tax-deductible, and growth is tax-deferred.

Please note that contribution limits change based  
on tax classification





# TAXES ON REAL ESTATE INVESTMENTS

If you invest in real estate as part of your business, you'll need to navigate the tax implications of selling property. Profits from property sales are typically subject to capital gains taxes, but you can use strategies to defer or reduce these taxes:

## **1031 EXCHANGE:**

Defers capital gains taxes by reinvesting proceeds from the sale of one investment property into another similar property. This is a powerful tool for building wealth in real estate without facing immediate tax consequences.

## **INSTALLMENT SALES:**

Spread out the capital gains tax liability by structuring a property sale as an installment sale, where you receive payments over time. This can help manage your tax burden by spreading it out over several years.



# COMPLIANCE WITH STATE & LOCAL TAXES

In addition to federal taxes, real estate agents must comply with state and local tax requirements, which can vary significantly depending on your location. Common state and local tax considerations include:

## 01 STATE INCOME TAXES

Depending on your state, you may be required to file and pay state income taxes.

States with no Income Tax: Alaska, Florida, Nevada, New Hampshire, Wyoming, South Dakota, Tennessee, Washington, Texas

Please note that State tax and Corporate tax are two different taxes.

## 02 SALES & USE TAX

Certain services or products you sell may be subject to state or local sales tax.

## 03 PROPERTY TAXES

If you own real estate as part of your business or investment portfolio, ensure you stay current on property taxes.

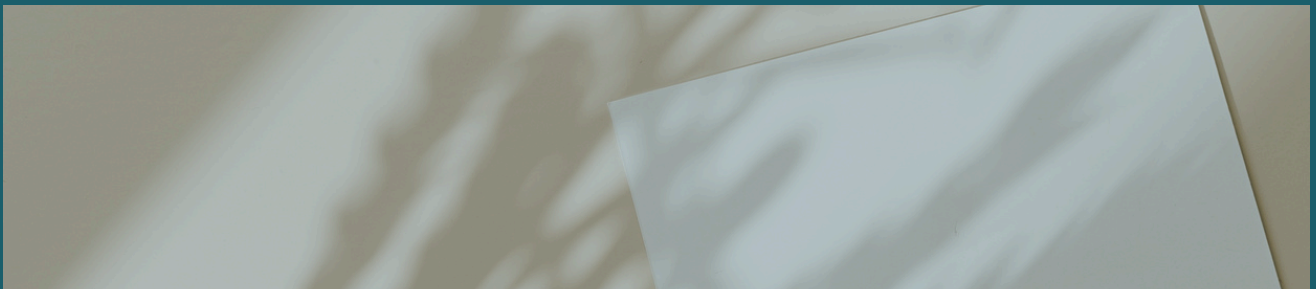


Each state has different rules, so consulting with a local tax professional or our team at Fulton, Brown & Co. can ensure you're in compliance and avoid costly penalties.

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*“You must gain control over your  
finances or your finances will  
ALWAYS control you, no matter how  
much more money you make. “*

DORCAS BROWN



# FAQ's

## What business structure should I choose as a real estate agent?

This depends on your local Real Estate Commission rules. Then what would be best for your company. For example: In NC Realtors who register their businesses are required to either be an LLC taxed as an S Corp or a Corporation.

## How can I reduce my tax burden year-round?

Tax planning isn't just for tax season. Regularly review your income, expenses, and deductions throughout the year. Consider working with a tax strategist to create a long-term plan that maximizes your tax savings.

## How much should I pay in throughout the year to prevent an under payment penalty?

If you are under the Sole Proprietorship, S Corp, or Partnership tax classifications then approximately 20% of your profit. If you are under the Corporation tax classification then your business should pay approximately 20% of its profits.

## What records should I keep for tax purposes

You should keep detailed records of all income, expenses, and receipts related to your business. This includes commission statements, invoices, mileage logs, receipts for supplies, and records of any deductions you plan to claim. The IRS recommends keeping records for at least three years, but longer for certain items.

## What's the difference between a tax credit and a tax deduction?

A tax deduction reduces your taxable income, while a tax credit directly reduces the amount of taxes you owe. Tax credits are generally more valuable than deductions because they provide a dollar-for-dollar reduction in your tax bill.

# LET'S GET STARTED!

Ready to take your real estate business to the next level? Whether you need personalized tax strategies, business advice, or financial planning tailored to your specific goals, I'm here to help. Let's cut through the confusion and create a clear path to financial success.

Book a paid consultation with me today, and together we'll design a strategy that maximizes your profits, reduces your tax burden, and sets your business up for long-term success. Don't wait—let's get started on making your financial goals a reality!

[SCHEDULE A CALL](#)[LEARN MORE](#)

The Realtor Tax Secret's™ guide simplifies tax management with strategies for maximizing deductions and leveraging credits. It provides essential tools to optimize your earnings and streamline your tax planning.

Give us a call to get started!

*Dorcas Brown*



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