MONOTELO ADVISORS

THE PURPOSE OF OUR WHITE PAPERS is to give our prospective clients the opportunity to hear the solutions we have recommended to address complex problems and to help people understand the issues to consider when making complex financial decisions. While the situations are real, the names have been changed to protect the innocent!

WHITE PAPER

INTRODUCTION

Realtor Sam, while a real person, is not the actual name of this real estate agent. We have changed the name to protect the innocent!

The Realtor Sam case is a case we examined in 2015, which had similarities to cases that had come across our desk in the past. Realtor Sam had been in the real estate business for nearly twenty years. He was not only selling real estate, he also owned several residential properties that were generating significant cash flow and taxable income.

Realtor Sam had incorporated his commission-based business as a C-Corp ten years prior to our interaction with him. Apart from a bad year in 2013, his gross commissions were generally around ninety-five thousand dollars per year and his commission-based business was generating around forty-thousand per year in free cash flow after all his expenses were paid.

What made Realtor Sam's case unique was the fact that his investment properties were generating significantly more income than his commission-based business.

THE CHALLENGE

By incorporating his commission-based business, Realtor Sam had taken the first step towards a tax-efficient business structure. However, there were additional steps he should have taken when he first set up his business ten years earlier.

Because of the way Realtor Sam had structured his compensation from his C-Corporation for his commission-based income, he was regularly generating losses on his corporate tax returns. Worse, because he was set up as a C-Corporation, those losses could not be used to offset the income he was generating from his rental properties. These issues were causing Realtor Sam to significantly overpay on his tax returns every year.

THE SOLUTION

Fortunately, we were able to put a plan together for Realtor Sam to help get him back on track. Our first goal was to take advantage of the accumulated losses on his corporate tax return. To accomplish this, we made some adjustments to how he was compensating himself through the business. Our second goal was to help him efficiently pull profits out of his business by taking advantage of some provisions in the Internal Revenue Code that were available to him as an officer of a corporation. These changes reduced his tax bill in the first year by $9,000 and by $5,500 in each of the subsequent years. These results were beyond what we had expected, and beyond what we generally see for someone with Realtor Sam's taxable income, but they do demonstrate what can happen when we apply a deep understanding of the tax code as it relates to real-estate centered businesses.

At Monotelo our focus is more than tax preparation, it is to make a difference with actionable and meaningful financial solutions that positively impact our clients' lives.

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Failing to order your affairs to minimize your tax burden could cost you significant money – so don't wait to take action. If you have additional questions or need some planning help, please reach out to us.