

TAX STRATEGIES FOR LANDLORDS

By Robert L Cain, Cain Publications

A real estate broker I know was complaining a few years ago about how much he had to pay in taxes. Considering his personality, his complaint was part complaint and part bragging. Because, of course, the more money you make, the more you have to pay in taxes. On the other hand, a good friend of mine, when he heard the complaint replied "I wish I had to pay a million dollars in taxes." If you had to pay that much, you'd have a pretty hefty Adjusted Gross Income.

Still, there is no reason to over pay your income taxes. All we need do is play the game skillfully to get our taxes lower.

Recordkeeping

The better your records, the bigger the deductions you can write off on your taxes. And if you are audited, the more likely you are to be able to keep your deductions.

First, pay your bills by check, debit or credit card. That's pretty basic, and you probably do that already. However, the problem arises when you pay for something for a property repair with cash from your pocket. There's that \$20 bill burning a hole in your wallet. After all, that \$19.95 isn't worth writing a check or using a debit card for, you say to yourself. One time won't hurt much, but once you say "just this time," you set yourself a precedent.

*The trick is to stop thinking of it as "your" money.
— IRS auditor*

The reason for the check, debit or credit card is that you have both the receipt and the canceled check or credit card statement. First, always write on the check what it's for. Likewise, always write the check number on the receipt. If possible, use one credit card only for rental purchases. Create a system for keeping track of your receipts. It doesn't have to be complicated: an envelope for every month will work fine.

If you can't resist, and pay by cash anyway, always, always, always write the following on the receipt: the purpose, the date, the amount, the receiver.

At one seminar I attended, the seminar leader suggested a shoe box with a slot cut in the lid under the front seat of your car to stuff receipts into. That way you always know where the receipts are, and when you get the time you can go through the receipts and match them up with the cancelled checks and credit card statements.

Just as important is to create a receipt and deposit system for your rents. The IRS will retrace all your deposits if they do an audit of your return. That means they will

want to know where all the money came from and will want to know what happened to all the rents you received or they think you should have received.

For example, they will look at the duplex at 1234 Main St., where the rent is \$750 a month. You show that one side was rented for 12 months and the other side for 11 months. The IRS will track the deposits to see if you deposited 23 sets of rents, or \$17,250. Any perceived deviation (real or imagined on their part) will get them digging deeper. So the better your records, the less intrusive the IRS might be.

In fact, if an auditor sees that you have all your records in apple-pie order and easily accounted for, he or she might just do a cursory check and then try to find someone to really pick on. It's more fun for an auditor if he or she can make someone's life truly miserable. Good records by a taxpayer make that more difficult and thus less fun for the IRS persecutor.

Car Expenses

The IRS is allowing us 50¢ a mile for business driving. That's if you decide to use the mileage method for accounting for your vehicle.

"By contrast, if you deduct actual business-connected costs for your leased auto, you also must keep records of all of your actual expenses (e.g., gas, maintenance and repairs, lease expenses) and allocate expenses between (deductible) business costs and (nondeductible) personal driving costs based on mileage," explains Portland, Oregon CPA Tom Napier. "You should be aware, however, that the mileage allowance method may yield a smaller deduction than you'd get by writing off the business-connected portion of your actual auto costs."

Other Ways to Save with an Automobile

Here are three strategies for increasing deductions on your vehicles.

Strategy One— Use two cars for business to get maximum deductions. If you drive only one car for business, the maximum business-use percentage you can achieve is 100 percent, isn't it? If you drive two cars for business, you could drive one car 100 percent of the time for business and the other 100 percent for business. Not very likely, but could you manage 90 percent



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