



# Managing Your Real Estate Business

*Making a difference in your first 90 days*

You may be an old hand at what you find in these slides. OR this may be the first time you operate a business that is your own. Make no mistake: this is YOUR business. You are affiliated with a real estate broker by virtue of an independent contractor agreement, which essentially means the broker is responsible only for paying you a gross commission earned on your real estate transactions. You are responsible for paying yourself and all other expenses from that commission.



## Stuff You Need To Act On Now



**Create a budget.** Plan yourself into success.

**Ensure independence.** Know and abide by pertinent independent contractor rulings

**Set taxes aside.** Don't let obligations to your Uncle surprise you

We're going to look at your current financial situation, determine the income necessary to fund your business, realize the necessity of separating your personal money from your business account and, finally, how to develop a plan to be financially independent so you are not constantly "under the gun" to make more money in commissions.



## Stuff You Need To Act On Now



### **Keep sharp records.**

They're both an offense and a defense

### **Build your wealth.**

Save money. Invest wisely. Limit costs

**Think ahead.** Plan now to afford retirement

You are not entering this job in a vacuum. You probably already have regular bills you have to pay. Additionally, you will now incur new expenses that you also have to cover. Although you may see success just around the corner, it is vital that your family not be surprised due to sporadic income. Forewarned is forearmed.



## Success Roadmap

### *Build your budget*

## What's Your Staying Power?

### Income

- *Salaries*
- *Other Income*
- *Savings*

### Expenses

- *Current monthly expenses*
- *Start-up costs*
- *New monthly expenses*

As a rule of thumb, new licenses should be prepared to go it alone (without income) for 180 days. During this time you will affiliate with a broker, start your training with the broker, begin to prospect and develop client relationships, and promote yourself and your real estate practice. There are things you can do, with and without your broker's assistance, to speed the process along. But you'll want to have saved money to continue your daily life while you get the training and promotion basics out of the way. For this reason, many new real estate agents continue to work as their existing jobs and part time in their new roles.



## Success Roadmap

### Build your budget

#### Do An Assessment

- Start by determining your current financial situation
- What is your current income? \$ \_\_\_\_\_
- What are current expenses? \$ \_\_\_\_\_
- Subtract expense from income
- Result: Profit or loss? \$ \_\_\_\_\_
- Set two goals as a result

*1) How much you need. 2) How you'll make it*



If you are entering real estate full time, look at the income from your most recent job. Now, add in any additional items like health insurance, company vehicle, etc. You will need to replace that income PLUS the extra taxes due on your self-employment PLUS your promotional costs. Figure your required living expenses. Now subtract expenses from income. If you are in a loss mode, you need to determine just how long you and your family can survive on your savings. Note that most new salespeople overestimate how much money they will receive and underestimate the time it will take.

At a bare minimum, you will need the income to pay your current obligations and new real estate expenses. That doesn't even consider profit. Let's start with your minimum obligations.



Success Roadmap

*Build your budget*

## Calculating Transactions

- If “A” = Commission per side
- And “B” = Desired monthly income
- Then “B” divided by “A” yields “C,” the number of sides per month



**Is your expectation realistic?**

*Let's say you desire \$5,000 a month ...*

How much business do you have to conduct to earn \$5,000 a month?



## Success Roadmap

### Build your budget

#### Taking Sides

Average sales price	\$175,000
Commission rate	6%
Total commission	\$ 10,500
50/50 split co-op	\$ 5,250
50/50 split with broker	\$ 2,625 = \$ per side
(A) Desired mo. income	\$ 5,000
(B) Average income/side	\$ 2,625
(C) Yield	1.9 = sides/ mo.



In his example to earn a gross income of \$5,000 per month you would have to close 1.9 sides (listings sold and closed, or sales closed.)  
What is your goal? Is it realistic? Go for it!



## Success Roadmap

### *Build your budget*

## **So Your Business Is ...**



Assuming average sale prices  
AND assuming only 1 side per transaction

Annual sales volume, \$3,990,000

Annual transactions, 22.8

Annual commission income, \$59,850

*You're really hustling!*

How the calculations work out.





## Success Roadmap

### *Build your budget*

For whom, and what, do you work?

#### **Personal**

#### **Account - 40%**

- Mortgage
- Food
- Personal Items

#### **Business Operating**

#### **Account - 60%**

- 10% Promotion
- 25% Taxes
- 5% Skill building
- 15% Profit
- 5% Miscellaneous

A VERY common mistake by new salespersons is to run the money for their real estate business out of their personal or family checking account. The big problem with this is that when you need to spend money on your business, your family may see this as taking money from the family. This only creates divisions and leads to the family problems that cause many new salespersons to quit.

We recommend the following breakdown. For every dollar of income, deposit 40 cents in your personal account and 60 cents in your business account. Effectively you are paying yourself a salary of 40% of gross income. Make every effort not to "borrow" from your business to pay personal bills. A short term decline in sales can lead to your not being able to pay either your business or your personal bills.



## Success Roadmap

# *Build your budget*

## Your first draft

### Calculate your financial resources

Rely on your assessment. The leading cause of business failure is under capitalization



### Calculate your monthly expenses

Marketing materials. Taxes. Vehicle costs. Legal, administrative, professional expenses. Supplies and direct expenses. Your business profit. Your income.

### Project first-year plan

Be realistic! It made need tweaking and fine-tuning

You'll want to build a budget for the real estate business that is you. Work with the white "hand-out" sheet on business expenses you received in the Best Start class.



## Success Roadmap

### *Build your budget*

#### Or maybe, several drafts

- Not once, not twice, but three times: for probable, pessimistic, optimistic conditions (the Triple Track)
- **Probable:** carefully prepared from projected revenue and expenses. Most likely followed.
- **Pessimistic:** takes adverse scenarios into account (interest rates up, demand down, family matters).
- **Optimistic:** your business world as seen through rose-colored glasses. All that extra cash!



Source: "Triple-Track Budgeting," Deanne Evers

Put a lot of time into the budget. Figure out several budgets, from the most optimistic to the most dire. Be prepared for the worst, and be happily surprised by the best.



Success Roadmap

*Build your budget*

Yes, it takes time

Yes, it is a chore

Yes, it does pay off!

Yeah, it's real work.

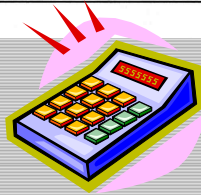




## The taxman cometh. Heed him

CORRECTED (if checked)

PAYER'S name, street address, city, state, ZIP code, and telephone no. ABC Realty 111 N. Main Anywhere, Any State, 00015		1 Rents \$ 2 Royalties \$ 3 Other income \$	OMB No. 1545-0115 <b>2000</b> Form 1099-MISC	Miscellaneous Income	
PAYER'S Federal identification number 48-xxxxxx	RECIPIENT'S identification number 222-33-4444	4 Federal income tax withheld \$ 0	5 Fishing boat proceeds \$	<b>Copy B For Recipient</b> This is important tax information and is being furnished to the Internal Revenue	
RECIPIENT'S name Susie Salesperson Street address (including apt. no.) 1212 Central City, state, and ZIP code Anywhere, Any State, 00015 Account number (optional)		6 Medical and health care payments \$	7 Nonemployee compensation \$ 40,000		8 Substitute payments in lieu of
Form 1099-MISC					




- Your broker is likely to issue an IRS Form 1099-Misc at tax time every year, declaring amounts paid to you in commissions, fees, etc.
- As an IC, you -- and not your broker -- will be responsible for paying taxes on this income.

Instead of getting a W-2 form like most employees that shows income, withheld taxes, FICA, etc., you will get a 1099 from your broker showing only your total commissioned income. You must take this and subtract actual business expenses to determine your taxable income. The most important thing is keeping accurate records. Receipts are normally only necessary for expenses exceeding \$75 but accurate records are ALWAYS necessary.



## Quarterly Estimated Tax

OMB No. 1545-0115	
2000	
Miscellaneous Income	
Form 1099-MISC	
5 Fishing boat proceeds	<b>Copy B For Recipient</b> This is important tax information and is to the venue you are return, alty or may be if this le and es that t been orted. ervice
\$	
7 Nonemployee compensation	
\$ 40,000	



- 90% of tax due must be paid in the year earned
- Estimated payments paid quarterly: 15<sup>th</sup> of April, June, Sept., Jan.
- Watch income and adjust quarterly payments up or down accordingly

A high percentage of salespersons end up getting stung at the end of their first year. The reason is that since no withholding is taken from your commission checks, you have to do your own withholding and send it to the IRS quarterly. Do NOT just wait until the end of the year to figure out how much you owe. Penalties are severe.

This is one of the reason you will want to talk to an accountant, and get his or her advice on when payments of estimated tax should begin, and in what amounts.

Whenever they're due, pay your estimated tax payments. This not only helps you avoid penalties for failure to pay the estimated payments, but also helps you budget for April 15. Note that people often misstate estimated payments as "quarterly" payments.





# Quarterly tax payment vouchers

The image displays four overlapping 1040-ES 1999 Payment Vouchers, numbered 1 through 4. Each voucher is from the Department of the Treasury, Internal Revenue Service, and is for the calendar year 1999. The due dates are: Payment 1 (June 15, 1999), Payment 2 (September 15, 1999), Payment 3 (December 15, 1999), and Payment 4 (March 15, 2000). Each voucher includes instructions on how to use it for making estimated tax payments with a check or money order, and a section for providing personal information such as name, address, and spouse's information. A cartoon illustration of a person sitting at a desk reading under a lamp is overlaid on the bottom right of the vouchers.

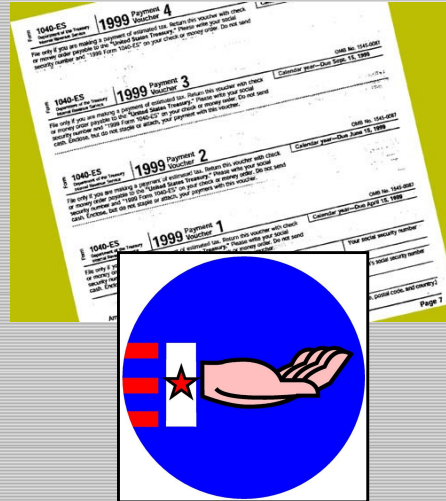
What quarterly payment vouchers look like.





## Can't pay tax? Still file timely

- You can request and negotiate a payment plan from the IRS
- Penalties for late filing and late payment MUCH higher than for late payment alone



Source: "Top 10 Tax Tips for Realtors," Randall S. van Renken

File on time even if you don't have the money to pay your tax bill. I cannot tell you how often I hear, "File an extension for me, I don't have the money to pay." Filing an extension does not give you more time to pay. If it did, why wouldn't everyone always file an extension? It only gives you (and your preparer) more time to prepare the return. If your return is ready to go on April 15, but your checkbook is in red ink, file the return anyway. You may request a payment plan.

Why file with no money paid? The penalties for failure to pay are .5% per month up to a limit of 25% (it takes over four years to hit this limit), plus interest. Not a pretty sight at all. But the failure to file penalty is nine times higher; 4.5% per month up to a limit of 22.5% (it takes only five months to hit this limit), PLUS the failure to pay penalty, plus interest. If you don't have the money but still file, the penalties are much lower than failing to file and failing to pay.

Source: "Top 10 Tax Tips for Realtors," Randall S. van Renken



## Accounting for your business

- Account for all income and expenses
- Keep all receipts
- Keep computerized records
- Review monthly
- What's working, what's not?



This is your *business*. Treat it as such!

You need to be able to track everything. Review everything monthly.



## Separate business from personal

- Avoid commingling; keep a separate checking account for business
- Keep a separate credit card for business, too
  - *Easier to post deductions to, pay the right bill from the proper account*



- *IRS allows deduction of finance charges, annual fee only if card is dedicated*
- *Be sure to write business explanations on your receipts*

Source: "Top 10 Tax Tips for Realtors," Randall S. van Renken

Keep a separate business checking account. While this is not required under the tax code for a sole proprietor or independent contractor, it is certainly advisable. Auditors just love it when they see people paying their local association of REALTORS® with one check and their mortgage payment with the next check. The potential for commingling is great. Further, any bank charges on a separate business account are deductible; on a commingled account they are questionable.

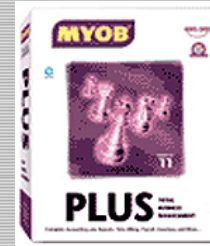
Keep a separate credit card for business use only. Some agents have two cards in their wallets at all times; one exclusively for business, and one exclusively for personal use. Never cross over. This makes it much easier to post the deductions and pay the bill from the right account, business or personal. Further, if the business account is not paid off in full each month (perhaps you bought a major item such as a computer used for business) the finance charges may be deducted since this card is used exclusively for business. If you commingle the business and personal use of the card the IRS will disallow finance charges and any annual fee.

Merely writing a check to VISA or American Express and putting the category as "business" is not sufficient. Each expenditure should find its correct category and be entered accordingly (the financial software programs allow for split entries - part to entertainment, part to supplies, part to dues, etc.). The credit card receipts issued at the time of the expenditure should note the business connection such as: "Lunch with Randy van Reken to discuss listing van Reken home" or "business cards for assistant."

Source: "Top 10 Tax Tips for Realtors," Randall S. van Renken



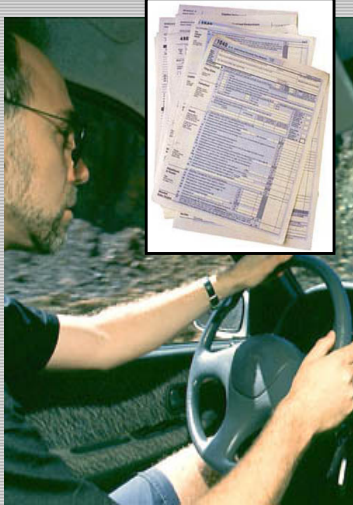
## Software for the purpose



You may want to use specialized accounting software for your real estate business in the same way you use it to track personal expenses.



## Tracking automotive expenses



This makes a difference to the IRS, and so should to you

- *Mileage deduction as a business expense*
- *Contemporaneous records required*
- *Tracking percentage of business vs. personal use*

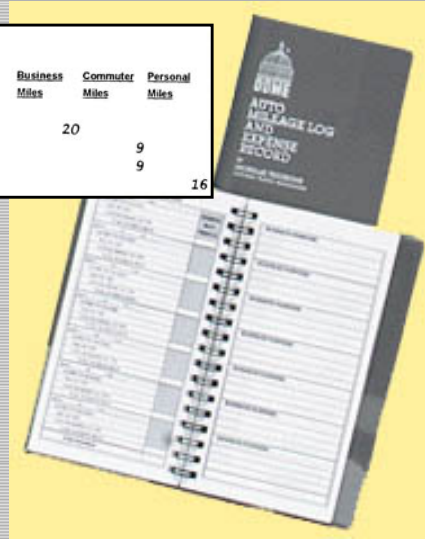
A car is something that is usually used for BOTH business and personal use. It is VITAL that records be kept. The IRS is fairly reasonable if you follow these rules.



## Keeping an auto mileage log

Date	Business Purpose	Odometer		Business Miles	Commuter Miles	Personal Miles
		Begin	End			
3-Jan	Open House - W. Maple	23090	23110	20		
1/3/00	Home to office	23110	23119			9
1/3/00	Office to home	23119	23128			9
1/3/00	Personal	23128	23144			
						16

Contemporaneous means at or near the time the driving was done. The IRS has been known to demand the above

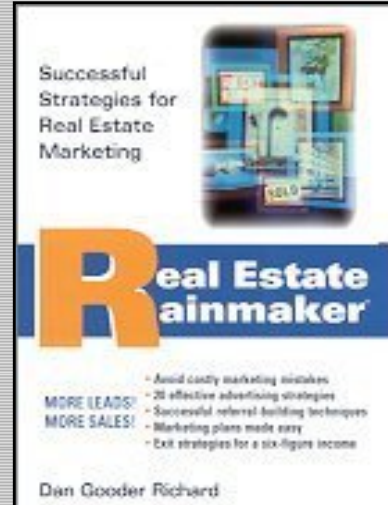


Mileage records must be done CONTEMPORANEOUSLY with the driving. Contemporaneous means at or near the time of driving. In other words, you can't just estimate or take a percentage of your miles at the end of the year as a deduction on your tax return. A small mileage book kept in your car is an easy way to record the mileage. An app on your smart phone is even easier.



## Wealth of recommended reading

- *Real Estate Rainmaker*  
– Dan Gooder Richard
- *How to Develop a Six-Figure Income*  
– Mike Ferry
- *Up and Running in 30 Days*
- *RE Agent's Business Planning Guide*  
– both by Carla Cross



We think these books are worth newcomers' time. Polley doesn't sell them. You probably can find used copies inexpensively.





## Building your personal wealth

### Invest in real estate

- *Personal residence*
- *Income property*
- *Vacant land*
- *Fix-ups for sale or management*
- *Foreclosures*



Don't buy retail. You know the market

**Buy Low – Sell High**

Contrary to popular opinion, people who are financially independent do not achieve this by making more money. Rather, they become independent through regular investments. Making more money simply leads to higher taxes and spending more money. NOTE this is specially true if you have not separated your personal and business accounts. We recommend you take most of your business profits and invest them. Historically, real estate has been an excellent long term investment. You will have many opportunities to buy quality properties. Take advantage of them.

Don't let the shoemaker's children go shoeless.

If you don't own a home make it a priority to buy one ASAP.

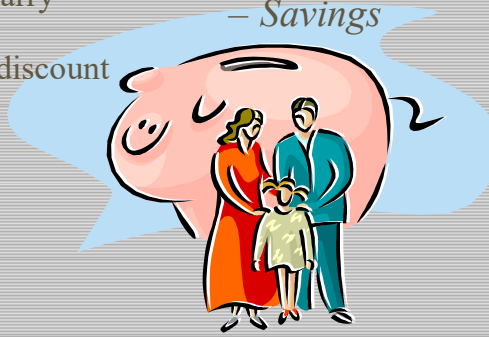
If you own a home, then begin to devise a plan to get richer through investing. Each of these investments have advantages and drawbacks so make it your business to learn more about real estate investing.





## Build your personal wealth

- Real estate-related investments
  - *Paper*
    - Seller carry-back
    - Buy at discount
  - *Lending*
  - *Tax liens*
- Other than real estate
  - *Stocks*
  - *Bonds*
  - *Savings*



Other than owning real estate there are related investments which can be very rewarding.

These should be investigated.

The big difference between real estate related investments and the securities market is that if you are in real estate you have some control over the investment.