

# 5 Tips for End of Year Real Estate Financial and Tax Reporting



## Close out the books in 2019 to maximize deductions, streamline 1099 processing and sharpen your focus with 2020 vision?

The holidays and new year should be a festive time spent with family, giving back to the community and showing gratitude toward clients. However, for agents and brokers who don't have their end-of-year financials in order, these last few months of the year might be anything but joyous.

Beat the end-of-year tax scramble with dotloop-integrated software that streamlines 1099s, maximizes deductions, minimizes errors and provides accurate reporting for smarter recruiting and planning.

### 1. Streamline 1099s

Whether you report commissions quarterly or annually, there are several integrations with dotloop that can help simplify the process.

As part of the initial onboarding checklist, Casey Reagan, CSO and co-founder of the Denver-based reeazily app, advises brokers and team leads to set up loops in dotloop for new agents' HR documents, including Independent Contractor Agreement (ICA) and W9s.

"For one-off co-ops, it's good practice to attach the W9

to a loop. The mistake is that brokers forget about the co-ops' W9s at the time of transaction and then they're scrambling to get all the information together at the end of the year," says Reagan.

Dotloop integrates with a variety of back-end and accounting apps to simplify 1099 preparation. For example, two-way syncing software API Nation and back-end real estate apps BrokerSumo and reeazily each integrate with QuickBooks Online to automatically populate commission data into the popular accounting software.

Also, because the information is sourcing from dotloop, these integrations will automatically pull in the agent's name, address, phone and email, making it easy for brokers to match agent records in QuickBooks.

Zipi, a Sacramento-based native accounting platform, keeps the agent billing, accounts receivable, accounts payable, agent loans or garnishments, commission disbursements, ACH/direct deposits, credit card processing and other accounting and back-end functions all within the Zipi platform.

Rather than have to think about when a deal closed or when you received payment, you can set up these integrations using the closing date from dotloop for receipts.

For those brokers who may add different types of payments other than commissions, such as property management fees or broker price opinions (BPOs), reeazily's broker.EZ can run a preview report that scans the entire office's fees collected or dispersed over the year.



"It's a good way to look at things that have changed and need to be adjusted in box 7 on the 1099," says Reagan.

All the information contained within a disbursement, including gross deductions, tax deductions, specific commissions, tech fees, agent expenses, Errors & Omissions (E&O) fees and deposits sync directly into QuickBooks, producing a clean profit & Loss (P&L) statement and 1099s, says Jeremy Shoenig, director of Salt Lake City-based BrokerSumo.

Agents, too, can obtain their own 1099s and view their commissions and expenses in real time using reeazily's agent.EZ, a broker option that allows agents to log in and access their specific 1099, or BrokerSumo's agent portal, which breaks out desk fees, transaction fees and other expenses from commissions to provide agents with a simple reporting module. Such portals offer broker-enabled agents the ability to sign off on their disbursements or pending commissions as verification of what they're being paid before the 1099 is cut.

## 2. Maximize Deductions

It's all too easy for agents to overlook expenses that could serve as valuable deductions throughout the year. For instance, the Employee Education Program may offer a brokerage a tax credit, depending on how much they spent on payroll. Rather than leave that extra money on the table, it's important agents and brokers identify the value of potential deductions. Here are a few common real estate write-offs:

- Marketing expenses, including open house signs, fliers, website development and business cards
- Real estate transaction management, marketing and back-end software
- Mobile devices/software used for work, including laptops and mobile phones

- Real estate consultation and education
- Real estate licensing
- Association, MLS and brokerage desk dues
- 401(k) contributions
- Transportation, including repairs, gas, mileage, insurance, leasing and parking
- Travel airfare and lodging for education and business trips
- Home office expenses, including a % of internet, utilities and rent
- Client gifts

While these types of expenses aren't typically tracked in dotloop, some can still be linked to the transaction in dotloop by entering the loop address under "customer" in QuickBooks, says Michael Davidovich of San Diego-based API Nation. "This lets you show your profit and loss per deal. I've seen brokers view their P&L by agent and by deal using this feature."

Mark Kappelman, CFA, CPA and co-founder of RealEstateAccounting.co, a full-service real estate accounting firm, advises identifying first-of-the-year expenses that may provide deductions for the current year. For example, paying MLS, CRM or LinkedIn membership fees that are due in January 2020 a month earlier in December can offer a tax deduction for the 2019 return that would otherwise be delayed by a year.

Taking care of any needed car repairs in the fourth quarter, rather than waiting until the following first quarter, is another good way to maximize deductions for the current year, says Kappelman.

With accelerated and/or bonus depreciation laws now allowing individuals to write off a larger amount in year one of a big purchase like a new car, agents can oftentimes deduct 100% of the purchase price in the year of purchase, rather than wait for it to depreciate



over seven years, says Kappelman. This puts actual dollars back into the agent's pocket by offsetting current year commission income with a non-cash depreciation expense.

"If you need a laptop, buy it now and take the tax deduction. If you wait until January, you won't get your tax savings for 16 months (April 2021) versus five months (April 2020) if you buy it in December," he notes.

To better track all expenses, Kappelman highly recommends getting a separate business credit card and bank account to avoid commingling of personal and business expenses. Not only does this offer the advantage of credit card point accrual, but it also makes end-of-the-year accounting much easier and thorough.

### 3. Track Deposits

Syncing deposits, such as earnest money, is not only critical to keeping your financials straight; it's also a compliance issue. Many states audit the flow of this money with three-way reconciliations to ensure the book balance, adjusted bank balance and trial balance are in agreement. To do that, brokers will need to track the amounts of the deposits, when they were deposited and where they were dispersed.

The API Nation integration with QuickBooks can automate this data flow for brokers and teams year-round. When a deposit is entered in the "earnest money" field within dotloop, a deposit is created for that amount in QuickBooks, dated with the listed "contract agreement date" and the loop name as the description memo of the deposit.

Additionally, any money that brokers receive for charitable donations campaigns need to be cleared from liability accounts by the end of the year. "CPAs want to make sure that those funds are paid out to the

charity in that calendar year," cautions Reagan.

### 4. Plan KPIs for Coming Year

Many brokers have set KPIs for the coming year with the goal of increasing business, retaining more agents or generating more referrals in the coming year. But what about taking the time to look back on the last 12 months to inform those goals?

One of the biggest mistakes real estate agents and brokers make at the end of the year is not taking a deeper dive into the wealth of knowledge the past year's data can provide. Agents can mine valuable information such as what lead sources returned the greatest investment, and brokers can identify which of their agents were most productive.

"Maybe 70% of your business comes from your sphere of influence, but you're spending money on Facebook ads to acquire new leads," says Zipi co-founder Jesse Garcia. "It's like throwing spaghetti against the wall to see what sticks, when really you should be spending money on getting more people in the funnel and nurturing those that already know and trust them."

There's a great deal of reflective and forward-thinking transactional information contained within dotloop. Average sales price, average commission, sources of business and number of units closed from each source are just a few of the metrics that can help inform year-end reporting and guide KPIs for the coming year.

"You can track how many phone calls agents made, how many deals they closed, how many transactions are in a pending or closed status. The options are endless in our platforms to create virtually any metric," says Garcia. "Whether they want to enter the data in Zipi and push to dotloop or pull from dotloop, we built the integration to work both ways."



The full story is in the details. "The real education is to see the true net commission production," says Garcia. "We see big celebrations around gross commission production, but someone could be doing half of that gross revenue and actually making more because they're not spending as much on Facebook ads, for instance."

Brokers can run reports and create dashboards using this data to better forecast their business, while agents can tap Zipi's new agent performance reports to identify metrics such as the number of active, pending and closed leads they worked over the past 12 months.

"At the year-end or from the anniversary date with the company, they can see their total volume GCI, sources of business and performance of KPIs based on goals or tasks, like how many open houses they planned in a month," says Garcia.

For best results, agents and brokers should set KPIs on a daily, weekly, monthly or quarterly basis. "Ask yourself, 'How many contacts do you want to make? How many listings or open houses do you want to go on? You might say 'I'll go on five listing appointments,' but if you're only converting 40% of them, you then know you'll need to go on more to hit your goal," says Garcia. "Or if you have an 80% conversion rate, and it falls to 30%, then you know it's an issue with scripts, training or confidence."

## 5. Close Out Pending Business

The transaction status tags within dotloop can help brokers and agents identify pending business to help better identify actions needed to maximize tax benefits. "You may try and close out the pending business in the current year or push it out to next year to avoid paying taxes this year," says Shoenig.

The end of Q4 and beginning of Q1 is also a good time for brokers to help remind agents as independent contractors to budget for quarterly taxes — a common oversight among novice agents who might have a productive year only to find out they owe the IRS \$30,000 at the end of the year.

Brokerages and team leads can help their agents get a good start on the new year by explaining the brokerage's or team's fees and setting up workshops to help better manage their taxes.

Integrations can simplify all of these tasks by syncing the transaction details with accounting apps. Most offer fast setups in under two minutes.

Remember, a few minutes spent getting the books in order today will save days of data entry headache tomorrow.

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