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Income tax returns
Consultations
IRS audits
IRS debt issues

Running your REI business professionally – are you on top of it?

1. Your business account does not have enough cash to pay $5k for your direct mail campaign, and you have to use your personal money. The proper way to do it is
   A. do an online transfer of $5k from your personal account into your business account and then write a business check
   B. charge $5k on your personal credit card, but later write a business check to pay off the balance on that credit card
   C. pay with a personal check for $5k, but then later write $5k business check to pay for your vacation, making it a wash
   D. either one of these 3 methods is acceptable

2. You drive your F150 to work during the day, and then drive it for your real estate business after work and on the weekends. It comes to roughly 50/50. You accommodate it by:
   A. paying for auto loan, gas, insurance and repairs out of your business account and later reducing your tax deduction in half
   B. paying for auto loan, gas, insurance and repairs out of your personal account and later including half of that as your business deduction
   C. alternating between paying from personal and company accounts, ensuring that payments are spread more-or-less evenly
   D. either one of these 3 methods is acceptable

3. You manage your rental properties out of your home office and want to deduct a corresponding portion (20%) of house expenses. To accomplish that,
   A. you must establish rent and write yourself a monthly check clearly marked "for home office rent"
   B. you must pay all your house expenses, such as mortgage, taxes and utilities, out of the business account
   C. you must pay 20% of your house expenses, such as mortgage, taxes and utilities, out of the business account
   D. none of these 3 methods is correct

4. You run your wholesaling business as a husband-wife partnership. To pull profits out of the company, the IRS expects you to
   A. establish a "reasonable" annual salary for each of you and issue regular formal paychecks, with taxes withheld and W2s issued for the year
   B. transfer funds out of the company business account into your personal account on as-needed basis, no 1099 needed
   C. transfer funds out of the company business account into your personal account at regular intervals, with 1099s issued for the year
   D. the IRS does not care about specifics, as long as you record each distribution and issue a 1099 or a W2 at the end of the year

5. You hire a part-time assistant, a single mom with no experience in real estate, who you will train and tightly supervise. You should pay her:
   A. as a part-time employee on W-2, with formal paychecks and tax withholding
   B. hourly rate in cash, with signed weekly timesheets and written receipt for each payment
   C. hourly rate with weekly business checks, no taxes withheld, and form 1099 issued next January
   D. combination of W2 salary for the regular hours and 1099 issued for additional bonuses and incentives

EA* – Enrolled Agent, Federally licensed to represent clients before the IRS

6. Your new bookkeeper informs you that your old bookkeeper has unexplained gaps in her QuickBooks file, and a lot of documents is missing. Your best solution is:
   A. bring back the old bookkeeper and force her to clean up her books
   B. make the new bookkeeper redo last year's books correctly and then proceed to work on the current year
   C. leave the old books "as is", let the sleeping dog lie, and start the current year bookkeeping in a fresh file
   D. dissolve the old company ASAP, to avoid IRS scrutiny, and start a brand new company instead

7. Complete and accurate QuickBooks records are sufficient for the IRS audit, except that you still need to keep:
   A. bank and credit card statements
   B. actual receipts for every business expense
   C. forms 1099 for your contractors
   D. all of the above

8. You own 5 rental houses with mortgages. You can significantly reduce your taxes by
   A. transferring these properties into an LLC
   B. transferring these properties into an S-corporation
   C. creating a separate property management LLC
   D. none of the above

9. You bought a flip for $100k, spent $30k on rehab and holding costs, and sold it for $150k within 5 months. Your IRS taxes on that $20k deal will be approximately:
   A. 15% of $20k = $3k
   B. 25% of $20k = $5k
   C. 30% of $20k = $6k
   D. anywhere between 15% and 40% ($3k - $8k)

10. You bought a flip for $100k, spent $30k on rehab and holding costs, and sold it for $150k more than 1 year later. Your IRS taxes on that $20k deal will be approximately:
   A. 15% of $20k = $3k
   B. 25% of $20k = $5k
   C. 30% of $20k = $6k
   D. anywhere between 15% and 40% ($3k - $8k)

11. You bought a flip for $130k and resold it the next week for $150k, with owner financing: $5k down, and then $3k/mo for 5 years (~10%). The only payment during this year was the down payment. How much do you owe the IRS for this year?
   A. no taxes are due until the principal is paid off
   B. 15% of the $5k down payment = $750
   C. anywhere between 15% and 40% of the $5k down payment ($750 - $2,000)
   D. anywhere between 15% and 40% of the entire $20k difference ($3k - $8k)

12. You and your partner split profits from each flip on a project-by-project basis, with fluctuating % numbers. Which business setup will NOT allow you to do that?
   A. you own 100% of the business, and your partner is your 1099 contractor
   B. you own 100% of the business, and your partner is your W2 employee
   C. you create an S-corporation with 50/50 stock ownership
   D. you create a two-member LCC-partnership, with 50/50 ownership