

Catherine

NRA Couple purchase rental property – Joint names but only he obtained ITIN and filed US tax returns for 100% of earnings/expenses as if it were only in his name. He died in December 2011 and no tax return has been filed after 2010.

Questions:

Do we file 2011 tax return for him as 100% owner and deceased then transfer 100% ownership to Her beginning 2012 with depreciation calculation rolling over to her?

OR does she receive Stepped up basis from December 2012 on his 50%?

Will his ITIN be expired if we attempt to submit 2011 1040NR?

How do you recommend I proceed?

TaxMama Replies

1) He needs a 2011 tax return up through the date of death. I would recommend that this be done as a joint return because that way, you can file it for the whole year.

2) Does it get a step up in basis?

How was title held?

It will either get a step-up in basis for the half that she owns.

Or for the whole thing, depending on how title was held.

The words “community property” need to be part of the title.

3) His ITIN HAS expired. He hasn't filed a tax return for over 3 years and it was not renewed during this last 3-year cycle. So you need to get a new ITIN for him and one for her. You're the CAA ;~)

Maurice

TaxMama Replies – interspersed in the questions.

1) What are some strategies to getting those first few clients in order to cover startup costs? I'm experiencing cognitive dissonance because my short-term clients' aspirations are different from my longer term business goals.

TaxMama Replies – interspersed in the questions.

I have given you two whole hours of information on how to get clients. Pick one of the strategies, first...and start moving.

<http://irsexams.com/board/index.php?/topic/547-bonus-lecture-making-a-living-as-an-ea/>

Since you want to target real estate investors and brokers – contact them and offer to do a 1 hour workshop for their office on current updates on real estate-related taxes.

2) Is this common in the tax biz? I've noticed that some practices pivot to other specialize niches later but have a hard time doing so as they grow.

TaxMama Replies – interspersed in the questions.

It's up to the tax professional. If you make a conscious decision to get a certain type of client – do it from the beginning. You'll earn more.

Of course you can accept other clients if you like. But be particular. You don't want to accept people who are not going to treat with respect or haggle over money.

3) Hiring employees - I use Small Business Taxes Made Easy very often. I have a part timer starting out with me. Do you have any payroll software suggestions? I'm looking at Tsheets.

TaxMama Replies – interspersed in the questions.

I am not familiar with all the current payroll systems out there.

TSheets looks interesting as far as time tracking and expenses – but I don't see that they prepare payroll tax returns. <https://www.tsheets.com/> They seem to integrate with other payroll systems. Consider looking at Xero and QuickBooks payroll software. They will be around for the long haul. Best advice, whichever software you use for your account – use their payroll system. Saves time and provides consistency. We also some forms and tools (mostly for clients, though) here <http://irsexams.com/board/index.php?/forum/219-practice-tools/>

We were using TaxTools, but they don't seem to cover MN.

<https://www.taxtools.com/pdf/flyers/flyer%20-%20payroll%20programs.pdf>

What tax software are you using? If you use Drake, payroll taxes are included.

Incidentally, are you talking about for your own office? Or are you considering offering a payroll service to your clients? Honestly, I recommend that you don't make this your business' focus – UNLESS you get the licenses to sell insurance and retirement plans.

4) Other than getting the FUTA, MN UTA, MN Tax ID and other admin stuff out of the way, I think there's a legal component to payroll. Is there? If so, how to cya?
I'm referring to non-compete clauses, job descriptions, and other nuances which may be overlooked.

I want to avoid giving myself a black eye.

TaxMama Replies – interspersed in the questions.

Non-compete clauses are not worth the paper they are written on.
But go ahead and write such an agreement. Focus the information, not on not opening up an office near you – but on not contacting your clients in any way once they leave.

Job descriptions – good idea. But don't define the jobs too narrowly. Make it part of their job descriptions to learn each others' functions. Define each job's responsibilities. If it includes making copies, making coffee, etc., put it in writing. It should include a focus on security – not leaving files out; not taking any client files home or on electronic media.

5) As far as business goes, I'm doing a soft launch this season (quickie tax returns). Next year is the real target (RE investors, RE agents, Market makers).

TaxMama Replies – interspersed in the questions.

If you build a base of cheap, quickie returns, they will be with you and will resist price increases. So be very selective about those people. Select people who are on the way up. Do NOT advertise for such people – it's a waste of money. They are price shoppers and will leave next year. If you're going to advertise, follow my guidelines in the course and target your real estate folks.

6) I'm finding that my family-friends of family/friend-clients prefer a personal relationship with me instead of just subscribing to an email list or using any business-esque mode of communication. I feel like I hadn't considered that into my business blueprint.

TaxMama Replies – interspersed in the questions.

Family is a very good source of referrals. But they are the WORST clients. So be very careful about working with family and friends. When they don't pay you, or bargain over your fees, YOU will be the bad guy when you try to collect. When you try to get data from them, they expect YOU to do the work for them – for nothing. They will call you all

the time for advice – for free.

So think carefully about this. Lay down firm ground rules and tell them they will pay you up front – and if they don't want to work that way, it's OK. Because you'd rather preserve the relationship than do business with them.

7) Do you have any tidbits that is learnt from working in the industry that you can pass along to aspiring EAs?

TaxMama Replies – interspersed in the questions.

Again, watch the video. I give you lots of ideas. And all through the classes, I pass on tips on how to work with clients more effectively.

We also some forms and tools (mostly for clients, though) here
<http://irsexams.com/board/index.php?/forum/219-practice-tools/>

Explore the right-hand column in the Board – the Handy Links column is filled with links to useful resources.

Masami

A client (LLC) has been doing property management for multiple property owners who rent their properties via Airbnb.

Airbnb issues rent payouts to the property management daily, not the property owners.

Rents transactions flow;

Guests -> Airbnb -> Property Management -> Property Owners

Airbnb issues 1099-misc to the property management

> Gross rent for 12/31/2017 to 12/30/2018 for 2018 (12/31 rents always fall into next year) : \$100,000

> Airbnb payouts (bank deposit) to the property management (same time period) : \$97,000

The property management issues net rent payouts to the owners monthly. It means that Dec 2018 monthly total rents is paid out in January 2019.

Here is the situation I am at;

1. The client asked me to prepare 1099-misc rent.

I am preparing the property management 1099-misc to the owners : Net

rent \$77,600 (Gross rent \$80,000 minus Airbnb fee \$2,400: these are calculated numbers based on not-including December)

> It is less than the airbnb reported amount because Dec 2018 rents were not paid out to the owner until January 2019.

> This does not match what Airbnb issued 1099-misc shows because of the timing. (Dec rent will not be included)

> I don't think I can prepare 1099-misc which includes Dec rent because Property management did not pay out Dec rent to the owners in December 2018.

2. Airbnb fee shouldn't be included in the property management 1099-misc to the owners because their fees were already subtracted at the property management tax return.

My concern is 1099 misc issued by Airbnb does not match 1099 misc issued by the property management. How does IRS see those numbers when they are not matched?

At the same time, I think it does not matter. Its all cash basis, so it never matches due to the timing.

Am I overthinking this? Thanks in advance for your input.

TaxMama Replies

The property management company reports the income they show on the 1099 that they receive. They issue a 1099 to the client for the amount they pay the client DURING THE TAX YEAR.

The property management company deducts the full cost of the AirBnB fees.

The landlord can report the whole thing on Schedule E, since these are long-term rentals.

Deduct depreciation, interest, property tax, and fees. NOT the management fee, since their 1099 is net, after the fees have been deducted.

But they cannot deduct a loss since this is totally passive – the property management company is actively managing the property.

Terry

As more preparers, firms, and clients move into remote tax preparation, would you delve into the pros and cons (and elaborate on the obvious) from both the preparer side and the firms/companies/businesses that employ/contract them?

The site: <https://www.cpapracticeadvisor.com/news/12428036/irs-reminds-tax-pros-of-data-security-requirements> has some data info, but this area has a far broader reach than just data security.

For instance, what do you recommend remote preparers use for identity verification? Is Skype or a similar site enough? What areas do you feel will be most overlooked when it comes to remote preparation (documentation, verification, etc.)?

We've all worked so hard to obtain our credentials (and for some, a business), that it makes sense to protect ourselves as best we can as we wade into this new territory.

TaxMama Replies

SecureFilePro is inexpensive and allows you to upload and download all docs to/from clients.

<https://www.securefilepro.com/>

For client verification – have them upload copies of all their ID info – SSN, D/L etc. for your files. And INTERVIEW them yourself.

Naturally get tax forms signed – we upload two files – the draft copy of the tax return (marked DRAFT) and the few pages that need signatures, as a separate file. They sign and re-scan. (you may use electronic signature software – we don't.) Send them a payment link. PayPal works well and lets them use their own credit cards.

Patrick

Asks about a Federal Transfer Certificate

Susan Replies

Read the instructions for Part B. Make a list of assets and their value at date of death. Include that with the paperwork to establish the higher basis. Get an ITIN for the heir.

<https://www.irs.gov/businesses/small-businesses-self-employed/transfer-certificate-filing-requirements-for-non-us-citizens>