

Broker Sales Meeting Packets



Add Sizzle and education to your sales meetings!

Tax Questions

Prepared by
Paul McLaughlin, Legal Counsel

Iowa Association of REALTORS®
1370 NW 114th Street, Suite 100 Clive, Iowa 50325
800-532-1515 or 515-453-1064 More packets available online at
www.iowarealtors.com/legal

Tax Quizzer

Question 1:

For 2006, individuals required to pay quarterly estimates on income tax must pay their fourth quarter estimate by January 15, 2007 for federal and January 31, 2007 for Iowa. What is the advantage of paying the fourth quarter estimate by December 31, 2006?

1. No advantage
2. This would reduce future tax obligations
3. You get to deduct in the current year your federal estimate on current Iowa return
4. You get to deduct your Iowa estimated taxes on your itemized 2006 federal tax return.

Question 2:

Can self-employed individuals deduct paid health insurance premiums if they are able to participate in a subsidized health plan maintained by their spouses employers?

1. Yes, if expenses are more then 7.5% Adjusted Gross Income
2. Yes, if insurance premiums are more then 2% total tax obligations
3. Yes, but only if the spouses plan allows participation by spouses
4. No, not if they are eligible to participate in a "life partners" health plan

Question 3:

What's the maximum traditional IRA contribution one individual can make in 2006 if they are less than 50 years of age?

1. \$2,000
2. \$2,500
3. \$3,225
4. \$4,000

Question 4:

The state of Iowa sponsors a 529 college savings plan which you can deduct on your Iowa return subject to certain limitations. Can you deduct other state sponsored 529 college savings plans on your Iowa return?

1. Yes, as long as it is state approved
2. Yes, as long as the plan submits to the jurisdiction of the Iowa Supt. of Banking
3. Yes
4. No

Question 5:

For 2006, if you contribute to the Iowa College Savings Plan you're allowed a deduction of \$2,500 per beneficiary on your Iowa income tax return. How much can a married couple with two children deduct with two separate Iowa College savings plans deduct from their Iowa income tax return?

1. A total of \$10,000
2. A total of \$5,000
3. A total of \$2,500 for each plan
4. A total of \$2,500 for each child

Question 6:

Tax Quizzer

What is the maximum gain that an individual taxpayer can exclude from income for the gain on sale of a personal residence? What is the maximum gain that a married taxpayer filing a joint return can exclude from income on the sale of a personal residence?

1. \$500,000 for a single or married individual
2. \$250,000 for a single or married individual
3. The first \$100,000 is exempt
4. None of the above

Question 7:

True or False? You can exclude the gain on a sale of a personal residence only once every two years without exception?

1. True
2. True, but only if it has been at least five years the person has lived there
3. False, if the change is of unusual, unforeseen circumstances a gain may be excluded
4. False, if a vacation home, it may be a “reasonable” business deduction

Question 8:

Points on a home mortgage loan are deductible in full in the year paid. Are points paid to refinance a home mortgage loan fully deductible in the year paid?

1. Yes
2. Yes, but only if the interest previously paid is “recaptured” for tax purposes
3. Yes, but only if any Mortgage Interest previously deducted is debited to the tax year
4. No

Question 9:

True or False? You can deduct your paid auto registration on your individual income tax returns.

1. False, unless the auto is registered to your business account
2. True, it may only be a bona fide business deduction
3. True, unless it weighs over 6,000 gross vehicle weight and therefore qualifies as business equipment
4. True for qualifying vehicles

Question 10:

What percentage of a business meal and entertainment expense is deductible for a taxpayer?

1. 50% for business related purposes
2. 100% if meeting with a bona fide business “client”
3. 80% if meeting with a bona fide business “customer”
4. 100% if “entertainment” is included with the meal

Tax Quizzer

Question 11: What of the following would be NOT be qualified as “reasonable and necessary” business deductions?

1. Personal care items at work (i.e. lip balm, hand cream, mouthwash)
2. Medical items at work (i.e. band aids, Aspirin, PMS relief, arm wrap)
3. Sundry work items (i.e. pencils, word-a-day calendar, candy dish)
4. Cigars for a client
5. Alcoholic beverages for general office use
6. Subscription to local newspaper you receive at home but bring to work
7. Business cell phone where you receive A LOT of personal calls

Question 12: Which of the following would qualify as HOME BASED office business deductions?

1. A “state of the art” office chair, but a card table desk
2. A grandfather clock in an adjoining room – visible at the office desk
3. A coffee maker in the kitchen
4. A throw blanket for the attic office
5. A file safe which contains both business and personal documents

Question 13: What is the proper way to calculate your HOME BASED office business depreciation on your property?

1. A flat rate of 17% of total mortgage
2. A flat rate of 17% of mortgage, taxes, insurance, interest, utilities, phone/internet line
3. The amount in proportion to its business use
4. The total amount of rent or mortgage payment, plus 30% of taxes and insurance

Question 14: Why form a limited liability company (L.L.C.), or sub-chapter S corporation, instead of a partnership?

1. Unlike a partnership, none of the members of an LLC are personally liable for debts.
2. A partnership is limited in the number of partners it may have
3. A sub-chapter S corporation is cheaper to set up than a partnership
4. Partnerships must have a minimum of three separate individuals (President, Vice-President, and Secretary/Treasurer) to authorize business transactions

Question 15: What are the basic factors to determine if a person is an employee or an independent contractor?

1. Getting paid by the hour verses monthly
2. Requiring floor duty or on-site regular model open house sitting
3. Solely an independent contractor employment contract
4. Not having to report to anyone except the Designated broker of an office

Tax Quizzer

Question 16: Business travel – What is the limit on the amounts deductible for meals

1. 80% of the dues/fees to belong to the club/restaurant
2. \$11.50 for breakfast, \$23.50 for lunch, \$39.75 for dinner
3. 80% for fruit/snacks/finger food for long highway travel
4. None, unless your work is overnight or long enough that you need to stop for sleep or rest to properly perform your duties

Question 17: If you lease a vehicle, can you deduct the cost of the lease payments plus the standard mileage rate?

1. Yes
2. Yes, if both are considered “business travel necessities”
3. No. you may only deduct business mileage not “regular” personal necessities
4. No. Only one or the other

Question 18: How much of business gifts deductible?

1. 100% of the actual market value of the gift
2. In general, you can deduct no more than \$25.00 for business gifts you give directly or indirectly to any one person
3. 50% of the direct cost. Receipt(s) required to be included with tax filing
4. \$50.00 for a “client”, \$35.00 for a “customer”

Question 19: I am self-employed. How do I report my income and how do I pay Medicare and social security taxes?

1. If you expect to owe less than \$1,000 in total taxes, you can pay them when you file your income tax return.
2. If you expect to owe \$1,000 or more in total taxes, you will need to make estimated tax payments.
3. If you will gross over \$25,000 you will need to figure these taxes at the beginning of the year and make quarterly tax payments.
4. Medicare and social security are the responsibility of my broker

Question 20: Can business related expenses include pay I give my kids for helping out?

1. Yes, if the amount exceeds \$7,500 in total
2. Yes, and each child over age 7 can keep about \$5,000 tax free
3. Yes, as long as the expenses are “reasonable” and they are paid a “market” hourly wage
4. No.

Tax Quizzer

Question 1:

For 2006, individuals required to pay quarterly estimates on income tax must pay their fourth quarter estimate by January 15, 2007 for federal and January 31, 2007 for Iowa. What is the advantage of paying the fourth quarter estimate by December 31, 2006?

1. No advantage
2. This would reduce future tax obligations
3. You get to deduct in the current year your federal estimate on current Iowa return
4. You get to deduct your Iowa estimated taxes on your itemized 2006 federal tax return.

Answer to Question 1: Both 3 and 4

For both your federal and Iowa returns you get to deduct income tax estimates and other tax payments in the year that they are paid. By paying your estimates in December rather than January you may deduct your federal estimate on your 2006 Iowa return and your Iowa estimate if you itemize on your 2006 federal return.

Question 2:

Can self-employed individuals deduct paid health insurance premiums if they are able to participate in a subsidized health plan maintained by their spouses employers?

1. Yes, if expenses are more than 7.5% Adjusted Gross Income
2. Yes, if insurance premiums are more than 2% total tax obligations
3. Yes, but only if the spouses plan allows participation by spouses
4. No, not if they are eligible to participate in a "life partners" health plan

Answer to Question 2: 4

No, a self-employed individual cannot deduct paid health insurance premiums if they were able to participate in a subsidized health plan maintained by their employers or their spouses employers. Let's just say "life partners" is a spouse for the sake of this question.

Question 3:

What's the maximum traditional IRA contribution one individual can make in 2006 if they are less than 50 years of age?

1. \$2,000
2. \$2,500
3. \$3,225
4. \$4,000

Answer to Question 3: 4

The maximum traditional IRA contribution for one individual in 2006 is \$4,000. A person who is 50 years of age and over is eligible to make an additional \$1,000 contribution for a total traditional IRA contribution of \$5,000.

Tax Quizzer

Question 4:

The state of Iowa sponsors a 529 college savings plan which you can deduct on your Iowa return subject to certain limitations. Can you deduct other state sponsored 529 college savings plans on your Iowa return?

1. Yes, as long as it is state approved
2. Yes, as long as the plan submits to the jurisdiction of the Iowa Supt. of Banking
3. Yes
4. No

Answer to Question 4: 4

No. Iowa only allows a deduction for contributions made to College Savings Iowa 529 Plan. No other state sponsored 529 college savings plan is deductible on an Iowa return.

Question 5:

For 2006, if you contribute to the Iowa College Savings Plan you're allowed a deduction of \$2,500 per beneficiary on your Iowa income tax return. How much can a married couple with two children deduct with two separate Iowa College savings plans deduct from their Iowa income tax return?

1. A total of \$10,000
2. A total of \$5,000
3. A total of \$2,500 for each plan
4. A total of \$2,500 for each child

Answer to Question 5: 1

A married couple can each deduct \$2,500 for each child. So the couple together can deduct a total of \$10,000 on their Iowa income tax return.

Question 6:

What is the maximum gain that an individual taxpayer can exclude from income for the gain on sale of a personal residence? What is the maximum gain that a married taxpayer filing a joint return can exclude from income on the sale of a personal residence?

1. \$500,000 for a single or married individual
2. \$250,000 for a single or married individual
3. The first \$100,000 is exempt
4. None of the above

Answer to Question 6: 4

An individual may exclude up to \$250,000 of gain from income, and a married couple can exclude \$500,000 of gain from income if they meet ownership and uses tests.

Tax Quizzer

Question 7:

True or False? You can exclude the gain on a sale of a personal residence only once every two years without exception?

1. True
2. True, but only if it has been at least five years the person has lived there
3. False, if the change is of unusual, unforeseen circumstances a gain may be excluded
4. False, if a vacation home, it may be a "reasonable" business deduction

Answer to Question 7: 3

False, you can exclude the gain on a sale of a personal residence more frequent than every two years if the change in the sale is the result of change in employment to another area, health or other unforeseen circumstances to the extent provided by the IRS.

Question 8:

Points on a home mortgage loan are deductible in full in the year paid. Are points paid to refinance a home mortgage loan fully deductible in the year paid?

1. Yes
2. Yes, but only if the interest previously paid is "recaptured" for tax purposes
3. Yes, but only if any Mortgage Interest previously deducted is debited to the tax year
4. No

Answer to Question 8: 4

No, the points paid to refinance a home mortgage must be deducted ratably over the period of the loan. That is points paid for a refinancing to a 15 year mortgage are expense over 15 years.

Question 9:

True or False? You can deduct your paid auto registration on your individual income tax returns.

1. False, unless the auto is registered to your business account
2. True, it may only be a bona fide business deduction
3. True, unless it weighs over 6,000 gross vehicle weight and therefore qualifies as business equipment
4. True for qualifying vehicles

Answer to Question 9: 4

True, you may deduct a portion of your paid auto registration on your income tax returns. This deduction is for register fees paid on qualifying automobiles and multi-purpose vehicles. The vehicle must have the letters "MV" printed next to the word "style" on the registration certificate.

Tax Quizzer

Question 10:

What percentage of a business meal and entertainment expense is deductible for a taxpayer?

1. 50% for business related purposes
2. 100% if meeting with a bona fide business “client”
3. 80% if meeting with a bona fide business “customer”
4. 100% if “entertainment” is included with the meal

Answer to Question10: 1

Only 50% of a business meal and entertainment expense is deducible for a taxpayer.

Question 11: What of the following would be NOT be qualified as “reasonable and necessary” business deductions?

1. Personal care items at work (i.e. lip balm, hand cream, mouthwash)
2. Medical items at work (i.e. band aids, Aspirin, PMS relief, arm wrap)
3. Sundry work items (i.e. pencils, word-a-day calendar, candy dish)
4. Cigars for a client
5. Alcoholic beverages for general office use
6. Subscription to local newspaper you receive at home but bring to work
7. Business cell phone where you receive A LOT of personal calls

Question 11 Answer: All the above could be classified as “Reasonable and Necessary” Business Deductions. Almost anything you buy for the purpose of running your business (not considered excessive) likely counts as a business deduction.

Question 12: Which of the following would qualify as HOME BASED office business deductions?

1. A “state of the art” office chair, but a card table desk
2. A grandfather clock in an adjoining room – visible at the office desk
3. A coffee maker in the kitchen
4. A throw blanket for the attic office
5. A file safe which contains both business and personal documents

Question # 12 Answer: Again, all the above could be classified as “Reasonable and Necessary” Business Deductions. Almost anything you buy for the purpose of running your business (not considered excessive) likely counts as a business deduction.

- Note: these items reduce your net profit which in turns reduces your self-employment taxes and therefore your income taxes.

Tax Quizzer

Question 13: What is the proper way to calculate your HOME BASED office business depreciation on your property?

1. A flat rate of 17% of total mortgage
2. A flat rate of 17% of mortgage, taxes, insurance, interest, utilities, phone/internet line
3. The amount in proportion to its business use
4. The total amount of rent or mortgage payment, plus 30% of taxes and insurance

Question # 13 answer: 3

To qualify as a home business deduction allows you to deduct part of your rent or take depreciation based on the portion of the home you use for business purposes.

For depreciation purposes – the amount in proportional to actual use. For example, if your home is 2,000 square feet and you use 300 square feet as an office, you may deduct 15 percent of your rent or take a depreciation deduction on 15 percent of your home.

To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, your deduction may be limited.

Your use of the business part of your home must be:

1. Exclusive (see exceptions below *),
2. Regular,
3. For your trade or business, AND

The business part of your home must be ONE of the following:

1. Your principal place of business,
2. A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business, or
3. A separate structure (not attached to your home) you can use in connection with your trade or business.

*You do not have to meet the exclusive use test if you satisfy the rules that apply in either of the following circumstances.

1. You use part of your home for the storage of inventory or product samples.
2. You use part of your home as a day-care facility.

Further discussion:

To qualify for the deductions, the IRS requires you pass three tests:

1. Your home must be your principal place of business. If you work from two locations, in order to take the deduction, the home must be the most important location, generally, the one where you generate revenue, but not always. If, you compare the two locations and it's not clear from which location you

Tax Quizzer

generate the most income, also consider time spent at either location. You must spend most of the time in the home for it to be the principal place of business under this consideration. If you look at revenues and time and you still aren't clear if your home is the primary place of business, you probably shouldn't take the deduction.

If your home office is not your principal place of business, you can take the home-office deduction if, for part of your business, you see clients or customers face-to-face in your home or use the space for administrative duties, paperwork activities and other related activities crucial to your business or work.

Also, if your home isn't your principal place of business but you use some free-standing structure on your property, exclusively and regularly for business, you can claim the home-office deduction for that space. A barn, greenhouse, workshop, studio, detached garage, any freestanding structure is eligible.

2. Your home business must also occupy a clear and identifiable space in your home. Generally, that means it must be in a location apart from the rest of your home. Examples include an addition constructed for your office, a converted bedroom, attic or basement, but also space in an alcove, nook or large walk-in closet space in a larger room.

3. You must use your home business space exclusively and regularly for your business. You can't use your business space to watch TV with the kids, play computer games or temporarily house a visiting friend.

It's always best to talk and confer with your personal tax advisor.

Question 14: Why form a limited liability company (L.L.C.), or sub-chapter S corporation, instead of a partnership?

1. Unlike a partnership, none of the members of an LLC are personally liable for debts.
2. A partnership is limited in the number of partners it may have
3. A sub-chapter S corporation is cheaper to set up than a partnership
4. Partnerships must have a minimum of three separate individuals (President, Vice-President, and Secretary/Treasurer) to authorize business transactions

Answer to question #14: 1

Unlike a partnership, none of the members of an LLC are personally liable for debts.

Tax Quizzer

Question 15: What are the basic factors to determine if a person is an employee or an independent contractor?

1. Getting paid by the hour verses monthly
2. Requiring floor duty or on-site regular model open house sitting
3. Solely an independent contractor employment contract
4. Not having to report to anyone except the Designated broker of an office

Answer #15: A little bit of all the above

The determination is complex, but is essentially made by examining the right to control how, when, and where the person performs services. It is not based on how the person is paid, how often the person is paid, or whether the person works full or part time. There are three basic areas which determine employment status:

1. Behavioral control
2. Financial control
3. Relationship of the parties

A court would look at the totality of circumstances to determine the employment status of a person. There is a 20 question test developed by the IRS to help address specific areas of work, however those are only guidelines which help courts look at the “big picture”. The written independent contractor agreement is likely the most important piece of evidence to determine contractual status.

Question 16: Business travel – What is the limit on the amounts deductible for meals

1. 80% of the dues/fees to belong to the club/restaurant
2. \$11.50 for breakfast, \$23.50 for lunch, \$39.75 for dinner
3. 80% for fruit/snacks/finger food for long highway travel
4. None, unless your work is overnight or long enough that you need to stop for sleep or rest to properly perform your duties

Answer #16: 4 Business travel – limits on the amounts deductible for meals.

Meal expenses are deductible only if your trip is overnight or long enough that you need to stop for sleep or rest to properly perform your duties. The amount of the meal expenses must be substantiated, but instead of keeping records of the actual cost of your meal expenses you can generally use a standard meal allowance. The amount varies, depending on where and when you travel.

Generally, the deduction for un-reimbursed business meals is limited to 50% of the cost

Tax Quizzer

Question 17: If you lease a vehicle, can you deduct the cost of the lease payments plus the standard mileage rate?

1. Yes
2. Yes, if both are considered “business travel necessities”
3. No you may only deduct business mileage not “regular” personal necessities
4. No. Only one or the other

Answer #17 = 4. No. If you lease a car you use in business, you may use either the standard mileage rate or claim actual expenses, which would include lease payments. You cannot use both the standard mileage rate and the lease payments.

Question 18: How much of business gifts deductible?

1. 100% of the actual market value of the gift
2. In general, you can deduct no more than \$25.00 for business gifts you give directly or indirectly to any one person
3. 50% of the direct cost. Receipt(s) required to be included with tax filing
4. \$50.00 for a “client”, \$35.00 for a “customer”

Answer #18 = 2

If you give business gifts in the course of your trade or business, you can deduct the cost subject to special limits and rules. In general, you can deduct no more than \$25.00 for business gifts you give directly or indirectly to any one person (therefore \$50.00 per couple) during your tax year. Exceptions may apply.

Question 19: I am self-employed. How do I report my income and how do I pay Medicare and social security taxes?

1. If you expect to owe less than \$1,000 in total taxes, you can pay them when you file your income tax return.
2. If you expect to owe \$1,000 or more in total taxes, you will need to make estimated tax payments.
3. If you will gross over \$25,000 you will need to figure these taxes at the beginning of the year and make quarterly tax payments.
4. Medicare and social security are the responsibility of my broker

Answer # 19 : Both 1 and 2

Your self-employment income is reported on Form 1040, Schedule C, Profit or Loss from Business, or on Form 1040, Schedule C-EZ, Net Profit from Business. Your Medicare and social security taxes are reported on Form 1040, Schedule SE, Self-Employment Tax.

As a self-employed person, you pay your Medicare and social security taxes the same way you pay your income taxes. If you expect to owe less than \$1,000 in total taxes, you can pay them when you file your income tax return. If you expect to owe \$1,000 or more

Tax Quizzer

in total taxes, you will need to make estimated tax payments. These payments are made quarterly. You will need to figure these taxes at the beginning of the year.

Question 20: Can business related expenses include pay I give my kids for helping out?

1. Yes, if the amount exceeds \$7,500 in total
2. Yes, and each child over age 7 can keep about \$5,000 tax free
3. Yes, as long as the expenses are “reasonable” and they are paid a “market” hourly wage
4. No.

Answer #20: both 2 and 3

If you pay your children to help you stuff envelopes or make cookies for an open house, you can deduct the cost as a business expense. Each child over 7 could earn close to \$5,000 without owing any tax. You must pay a reasonable wage and keep a record of the hours.