Tech Savvy, Tax Savings

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Real estate professionals buying new technology related to sales, accounting records, or for other reasons may benefit from tax rules that allow deductions under the "immediate expensing" provision. Tax benefits can reduce after-tax costs of cellphone apps, virtual reality goggles, and tax record-keeping software.

Electronic record-keeping for tracking business mileage, store receipts, and time spent working in real estate related activities can provide documentation that will be respected by the IRS and tax courts. For example, the passive activity limitation (PAL) rules use various tests to determine the deductibility of losses against other income. Depending on circumstances, some of the tests pertain to whether the property owner spends 100, 500, or 750 hours per year managing the property. Furthermore, mileage from one property to another is deductible if the mileage can be documented. Mileage may be deductible for salespersons driving potential buyers from one location to another.

The Takeaway

Tax benefits can reduce after-tax costs on new technology from cellphone apps to virtual reality goggles and can help with tax record-keeping.

Another need for documentation pertains to the rental of vacation properties. Tracking the number of days of personal use, use by relatives, and use by unrelated parties is necessary to determine whether tax depreciation and operating expenses (such as utilities and maintenance) can be deducted.

Electronic record-keeping can be used for meeting the tax documentation rules for deducting meals and entertainment expenses as well as travel that is part business and part personal. Apps that may be useful for keeping track of mileage and expenses include Taxbot, SherpaShare, Everlance, and TrackMyDrive. The Ducky app can link to Intuit products, like QuickBooks. But be aware that this column is not intended to advertise, promote, or recommend one type of technology or manufacturer over another. Specific technology and manufacturers are for illustration only.

Some apps are free, some can be purchased with one payment, and some require an annual subscription. All app costs are deductible if the app is used exclusively for business. Subscription costs can reach $80 per year. But since the costs are deductible, the after-tax cost is lower than the out-of-pocket cost. For example, a sales agent in the 25 percent tax bracket who purchases an $80 app would save $20 in tax (25 percent of $80), making the after-tax cost $60.

Virtual reality goggles are another type of deductible technology. Such products are fast becoming essential for showing properties to prospective clients, particularly when the properties are located miles away. The best goggles can simulate a 3-D environment, enabling the viewer to see any aspect of the property from any angle (0 to 360 degrees).

The cost of virtual reality goggles varies greatly—from $20 to $3,000. As with apps, the tax deductibility can greatly reduce the after-tax cost. A 25 percent tax bracket sales agent would save $750 if he or she purchased $3,000 goggles (25 percent of $3,000 is $750).

As previously noted, the cost of apps is fully deductible. The "immediate" deductibility of goggles is made available by a special tax provision called Section 179 expensing. Section 179 allows businesses to deduct up to $510,000 of the cost of "tangible personal property" purchased during 2017. The deduction ceiling rises each year based on the level of inflation.

Immediate expensing is only available to the extent of the amount of taxable income from the business. Thus, in the virtual reality goggles example, the taxable income of the business must exceed $3,000. If the taxable income were $2,000, only $2,000 of the $3,000 could be deducted this year. The excess $1,000 ($3,000 minus $2,000) could be carried over to the next tax year and deducted if taxable income is high enough.

As already indicated, the rules surrounding documentation and the deductibility of technology can be complex. Consultation with an accountant or attorney knowledgeable about real estate tax matters is recommended.

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