3 Common Mistakes Realtors Often Make

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Real Estate Agents are more than just a friendly face that you can call when you are ready to buy or sell a home, they play a vital role in strengthening the local communities they serve. They help in various ways such as:

- Helping families find their perfect home
- Simplifying complex real estate jargon
- Providing guidance on school ratings, neighborhood safety, mortgage options, etc.
- Supporting local businesses
- Educating our community
- Sacrificing evenings and weekends to be available for their clients

Real Estate Agents are so deeply committed to their clients and communities, they often neglect their own financial well-being. Without proper planning, financial missteps can undermine the long-term success of even the most successful agents. That's why we are uncovering the 3 Common Mistakes Real Estate Agents often make, and actionable steps you can take to avoid them.

1. Be Your Own Boss, Build Your Own Benefits

As a 1099 Independent Contractor, you are responsible for providing your own benefits such as retirement savings, life and disability insurance, health, vision, and dental coverage, as well as any sick time or paid time off. It's easy to feel overwhelmed and many agents delay or neglect these critical tools. However, having a well-structured benefits plan is essential to safeguarding your financial future and your family.

- **Retirement**

  Due to increasing household and healthcare costs, lower retirement savings, and pension benefits becoming a thing-of-the-past, 79% of Americans believe there is a retirement crisis in America. (1) 87% of Americans have a growing concern about not being able to maintain their current standard of living throughout retirement. (1) As a realtor, you have a unique advantage to choose from a variety of retirement plans based on the structure of your business. SEP IRA's, Solo 401(k)'s, and Traditional or Roth IRA's can all be great options based on how much you would like to contribute, your income level, flexibility, and if you would like to utilize tax deferral benefits.

  Flexibility is in your blood! One huge advantage of being an agent is having a flexible schedule and being able to meet your clients within their availability. On the other hand, one slight drawback may be the unpredictable timing of home closings (irregular income flows). Having a flexible retirement plan that allows you to contribute more during peak sale months and pull back during slower months is imperative.

- **Rainy Day Reserve Fund**

  Real Estate Agents will often see a fluctuation in sales, surging in the spring, summer, and fall months and the usual lull in the colder, winter months. Planning for slower months or even an industry-wide recess in the real estate market, like the one seen in 2020, is a key strategy Realtors need to consider. Due to the relentless demands of hands-on client work or the momentum of strong sales, a High-Producing Realtor may overlook the need for a well-funded "Rainy Day" Emergency Fund.

For the average consumer, it is recommended to save 3-6 months of essential expenses of liquid assets such as cash. A single individual may find 3 months of expenses saved sufficient. However, those with concerns about job security, higher cash flow needs, significant debt obligations, children, or financial responsibilities for aging parents should aim for 6 months or possibly more to ensure greater financial stability. Due to the ever-changing real estate market and vulnerable slow periods of home sales, Agents should consider saving towards the higher of 6 months expenses, replenishing the account as those funds are used.

This cash reserve should be kept in an account that has lower risk and volatility, and you can be accessed quickly if needed.

- High-yield Savings Accounts and Money Market Accounts are excellent options for earning a higher yield while maintaining easy access to funds and are often offered at your local bank.
- Money Market Funds could provide a slightly higher yield as a lower-risk investment option, but it may take a few days to get access to those funds.
- CD’s can offer higher returns but may impose penalties if you withdraw funds before the maturity date.
- Credit Cards can serve as a backup option if your cash reserves are depleted; however, they should be used cautiously, as they typically come with high interest rates that can quickly lead to costly debt.

- **Insurance**

According to the American Council of Life Insurers, 69% of households had life insurance coverage in 1998, and just 52% in 2023 (2).This declining trend can potentially leave many families financially vulnerable in the event of an unexpected loss.

The type and amount of life and disability insurance you may need can vary significantly based on factors such as income, family structure, age, health, and lifestyle. As active agents, you may be taking on additional risk when walking into a home for the first time. Steep and narrow staircases, uneven pavement, unusual landscapes and other unknown and dangerous conditions are just a few examples you may be suddenly introduced to.

As you've likely noticed, flexibility is a recurring theme throughout this article. Insurance is not one-size-fits-all, it should be tailored to fit the ever-evolving needs of your life. By strategically combining different types of coverage, you can help ensure financial stability at every stage.

In your younger years, during the wealth accumulation stage, higher amounts of life and disability insurance may be essential to protect your family, replace lost income, pay off a mortgage or other debts, and save for your children’s education.

As you transition into the wealth preservation and distribution stages leading up to and throughout retirement, insurance shifts from being primarily a safety net, to a powerful investment tool: supplementing retirement income, covering long-term care needs, facilitating estate planning, and supporting charitable or legacy gifting.

Note: Life insurance proceeds are tax free and not included in the beneficiary's gross income. This is why life insurance can be utilized as an essential tool in a comprehensive financial plan. (3)

Just like buying the right home, choosing a health, vision, and dental insurance plan that works best for you and your family's needs is an important decision. Without the right health plan, an unexpected accident or illness could put your most important financial and retirement goals on hold, forcing you to shift priorities and redirect your savings toward medical bills.

If you decide to join a high-deductible health plan, you gain the opportunity to open a Health Savings Account (HSA). The HSA is a tax advantage savings account that is designed to help individuals and families save for future healthcare costs but is only available to individuals or families that have a high-deductible health plan. The HSA allows you to contribute pre-tax dollars which accumulate and grow tax free. If used for qualified medical expenses, the withdrawals are tax free; non-qualified medical expenses could be taxable.

2. Shield Your Wealth, Consider an LLC

As a 1099 Independent Contractor, you've built your own successful business. As a business owner, there are certain protections to consider.

Along with enhanced professionalism, one of the largest benefits you can obtain by creating an LLC is Limited Liability Protection. In simple terms, an LLC protects your personal assets (home, car, savings accounts, etc.) from business liabilities such as potential lawsuits or contract disputes.

Real Estate Agents typically have a passion for real estate and commonly immerse themselves fully into the industry. It's common for agents to own multiple rental properties or be a part of a "fix and flip" business. By having the LLC purchase the rental properties or have the business operating under the LLC, you can gain personal liability protection and protect the name of your business. This strategy also adds an additional layer of privacy since the LLC's name would be the public owner on the property records, not yours.

By keeping your business and personal assets separate, you unlock several benefits.

1. **Tax Flexibility –** In an LLC, your income can pass through directly to your personal income which simplifies taxes, or you can elect to be taxed as an S-Corporation which can help save on self-employment taxes.

2. **Organization –** Keeping your personal and business accounts separate helps track and maintain accurate records and avoids the potential of mixings funds. If you were to be chosen for an audit, having transparent and consistent bookkeeping can help clearly define your business profits, losses, and expenses.

3. **Income Flexibility –** When your business is set up as an LLC with an S-corporation tax filing status, you have the flexibility to control income distributions to yourself or any partners in the LLC. Typically, you pay yourself a reasonable salary and distribute additional income when appropriate. This ties back into having more control and consistency with your income during slower periods of home closings and the importance of a Rainy-Day Fund.

3. Realtor Hack: Deductions You Should Be Claiming

Note: Please always consult with a tax professional to ensure you're filing and utilizing deductions correctly.

As a dedicated Real Estate Agent, you work tirelessly to provide your clients with the best home-buying and selling experience. To keep your hard-earned income, it's essential to keep accurate records and take advantage of valuable business tax deductions.

Below is a list of common deductions that may help reduce your taxable income.

- **Vehicle Expenses (gas, maintenance, insurance)**
- **Home Office or Office Expenses**
- **Marketing & Advertising Expenses**
- **Licensing & Association Fees**
- **Technology Expenses (computer, cell phone, internet, software fee)**
- **Health Insurance Premiums**
- **Retirement Contributions based on the type of retirement account and business structure**
- **Client Closing Gifts**

Another valuable deduction to consider is the Qualified Business Income (QBI) Deduction. Designed specifically for self-employed individuals and small pass-through business owners, this deduction allows you to deduct up to 20% of your qualified business income, provided your earnings fall below a certain threshold. If your income exceeds this limit, you may still be eligible for a reduced deduction. Since the QBI deduction can be complex, consulting a tax expert is highly recommended to ensure you maximize your benefits.

Conclusion

Just like the airlines remind passengers to put on their own oxygen masks before assisting others, you must prioritize your well-being to effectively serve those around you. When you're focused on growing your business, providing top-tier experiences for your clients, caring for your family, and managing the demands of daily life, your own needs often take a back seat waiting for some "free time." But let's be honest, does your weekly schedule ever truly slow down?

Consider this as your sign to block off some time on your calendar to review some of the topics introduced in this article. Prioritizing your financial well-being ensures you're making steady progress toward both your short- and long-term goals.

In my experience working with real estate agents, they've shared that their expertise, local connections, and unique personalities play a significant role in attracting clients. However, true success comes from more than just individual skill—it's about building strong relationships with other professionals. Partnering with insurance agents, tax professionals, financial planners, attorneys, fellow Realtors, and business owners not only enhances your expertise but also establishes you as a well-rounded, trusted leader in your community.

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