

Real Estate Investors...Can An LLC Create And Support Tax Deductions?

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Yes! But first, if you have not done so, set up a limited liability company (LLC). Then elect the LLC to be taxed as a partnership (with at least two members) so you have an *LLC-Partnership* which is both a legal and tax entity (with a low IRS audit profile) and the best entity for real estate. If you operate as one person, another member (to create the partnership) can be your spouse, other family member or even another entity you own such as a C-corporation. These can be minority low-percentage members so you can still have total control.

Now to the topic at hand. Properly structured, with the appropriate documents, an LLC can support expenses as tax deductions, many of which are IRS hot spots (discussed shortly) and typically would be more aggressive if taken as a non-entity sole proprietor (which is also very prone to IRS audits).

What to do: Use a properly worded comprehensive LLC Operating Agreement (OA). There are several important LLC legal documents. But the OA is the most important one.

The Operating Agreement is the nuclear, governing instrument...mandating LLC business operations. Simply put, it is the *heart* of the LLC!

The OA is also a *private* document, not exposed to the public such as the articles of organization. The OA used, should be a “Real Estate OA”, specifically designed for real estate investment operations.

A properly worded OA will contain legal provisions that document the LLC is a separate entity where the LLC affairs are separate from the affairs of the members. These legal provisions (along with entity formalities) will give its members limited liability protection, therefore making it difficult for a court to pierce the LLC entity veil (which would expose member personal assets to attachment). This is because the LLC would be separate and distinct from its members.

ALERT: Standard boiler-plate OA’s (which most are) do not do this, as well as not doing below.

Tax Deduction Support: A properly worded Real Estate OA also supports the multitude of tax saving expense/deductions (and strategies) that are available for the absolute best tax shelter – real estate.

How Is This So? Because having the correct legal provisions in the OA (per the above) separates the LLC entity from its members, as a separate legal person. So given this, the statutory LLC entity (separate from its members) via this legal document (the OA), formally authorizes LLC members to incur expenses necessary to attain the specific business purpose of the LLC as provided in the OA (which purpose is: *High-return, low-risk real estate investing*). This is summarized below.

The LLC Entity		You as LLC Member
Gives legal authorization to incur expenses necessary to attain the LLC business purpose	S e p e r a t e	With the LLC authorization, you incur the authorized deductible expenses, carrying out the LLC bus. purpose

This is powerful! You will feel much more assured and comfortable that your tax deductions are legally supported by this legal entity (LLC) via this legal document (OA).

IRS Hot Spots: This is especially so with IRS hot spots such as deductions for auto, home-office, entertainment, meals, travel to find property; and especially real estate education (seminars, home study courses, coaching programs) along with related travel to the educational event.

With the proper LLC documents, you can legally and fully claim such deductions, even if you do not yet own any investment properties and save thousands! This could be a very troublesome area with the IRS...but now can be resolved with a properly structured LLC entity with complete, correct documentation!!

Conclusion-Summary: Such proper documentation can therefore be an effective defense against any IRS attacks; or CPA's trying to deny you of valuable deductions. *Reason:* This statutory LLC entity (separate from its members) via this legal document (the OA), formally authorizes these deductible expenses necessary to attain the LLC business purpose. You end up with legal tax-saving deductions and a more successful real estate operation...The best of both worlds.

To learn more about the hidden powers of LLC's and save \$1,000's, go to:

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