

Tax Tips

Small Business Edition • Summer 2013

Deducting Your Home Office

New rules make it simple

With the advancement of Internet access and Cloud storage, working from home is becoming the norm for many professionals. Yet, claiming an office in the home has been a burden for some taxpayers, so the IRS has provided a simplified home office deduction rate to make the process easier.

To claim the home office deduction, if you are a business owner, you must use a portion of your home regularly and exclusively as the principal place of business, as a place to meet with clients, or in connection with your trade or business. As an employee, to claim the deduction, your employer must require that you maintain a home office for his or her convenience and you must meet the regular and exclusive use requirement.

If you maintain a qualifying home office, you may elect to use the new simplified method to compute your deduction. The simplified method allows you to deduct \$5 per square foot of home office space up to 300 square feet, for an annual maximum deduction of \$1,500. If you choose this method, you cannot claim depreciation; however, you can claim allowable mortgage interest, real estate taxes and casualty losses on the home as itemized

deductions on Schedule A. These deductions need not be allocated between personal and business use, as is required under the regular method. Business expenses unrelated to the home, such as advertising, supplies and wages paid to employees are still fully deductible.

Alternatively, you may calculate your deduction using the regular method. You must record direct and indirect expenses when making home office calculations. Direct expenses are those that pertain exclusively to the home office, such as painting the walls or installing new cabinets, shelving, carpeting, etc. Indirect expenses are those that pertain to the entire residence, such as rent, mortgage interest, taxes, insurance, repairs, security systems, utilities, casualty losses and depreciation.

As your tax professional, I can help you allocate indirect expenses between the business and non-business portions of the home. This is done based on the business use percentage of your home. The business use percentage is most often found by dividing the square footage of the office by the total amount of usable space in the home.





Health Care Provisions *How will they affect your business?*

In 2010, President Obama signed a new health care reform law. The legislation is in two parts consisting of the *Patient Protection and Affordable Care Act* and the *Health Care and Education Reconciliation Act of 2010*.

While the primary purpose of this reform is to mandate that all U.S. residents obtain health insurance coverage, the law creates a host of tax credits and penalties on employers and taxpayers for failure to do so. In addition, there are several new rules that were created to raise the necessary funds to pay for this reform. Many of these provisions do not become effective until 2013 and 2014. Following are several of the provisions that may affect your business.

Provisions Effective in 2013 Additional Medicare Tax for High Income Workers

An additional 0.9% Medicare tax will be imposed on the wages of individual taxpayers (including self-employment income) in excess of \$200,000. There is no employer match on this additional tax. The employer will not be liable for any additional 0.9% Medicare tax that it fails to withhold and that the employee later pays. However, the employer will be liable for any penalties resulting from its failure to withhold.

Limitation on Health FSA Reimbursements

The maximum amount available for reimbursement as a benefit under a qualified cafeteria plan (health FSA) is limited to \$2,500. Previously there were no limits other than those set by the plan.

Compensation Deduction Limit for Health Insurance Providers

The deduction for compensation paid by a covered health insurance provider to officers, employees, directors and other workers or service providers (such as consultants) performing services for or on behalf of a covered health insurance provider is limited to \$500,000.

Provisions Effective in 2014 Health Coverage Excise Tax for Large Employers

Large employers (those with at least 50 full-time employees) who don't offer health care coverage for all their full-time employees and make contributions toward the premiums, must pay a penalty if any full-time employee is certified to the employer as having purchased health insurance through the state with respect to which a tax credit or

cost-sharing reduction is allowed or paid to the employee. These excise taxes are nondeductible. The penalty is \$2,000 per full-time employee, excluding the first 30.

Employer Reporting Responsibilities for Health Coverage

Certain employers will be subject to new information reporting and related statement obligations for health insurance coverage. The information these employers are required to report includes:

1. The name, address and employer identification number of the employer;
2. A certification as to whether the employer offers its full-time employees and their dependents the opportunity to enroll in minimum essential coverage under an eligible employer-sponsored plan;
3. The number of full-time employees of the employer for each month during the calendar year;
4. The name, address and taxpayer identification number of each full-time employee employed by the employer during the calendar year and the number of months, if any, during which the employee and any dependents were covered under a plan sponsored by the employer during the calendar year; and
5. Such other information as the IRS may require.

Corporate Estimated Tax Payment

The corporate estimated tax payment due in July, August and September 2014 for large corporations with assets of at least \$1 billion in the previous year has increased from 157.75% to 173.50% of the payment otherwise due.



Travel Per Diem Rates

Rates to use when reimbursing employees

Each year the IRS announces simplified per diem rates that companies can use to reimburse their employees for expenses incurred during business travel. The simplified method allows employers to reimburse the employee instead of using actual expenses.

The IRS-approved per diem rate for high-cost areas is \$242 (\$177 for lodging and \$65 for meals and incidental expenses). The IRS-approved per diem rate for all other areas is \$163 (\$111 for lodging and \$52 for meals and incidental expenses).

Included in the per diem is a \$5 daily rate for incidental expenses. Incidental expenses include fees and tips given to bellhops, hotel maids and other such service providers. They do not include transportation between places of lodging or business and places where meals are taken, and the mailing cost associated with filing travel vouchers and payment of employer-sponsored charge card billings.

IRS Letter-Forwarding Program Discontinued

Other services are available to retirement plan administrators

The IRS will no longer forward letters on behalf of plan sponsors or administrators of qualified retirement plans or qualified termination administrators (QTAs) of abandoned plans under the Department of Labor's Abandoned Plan Program who are attempting to locate missing plan participants and beneficiaries. Since the IRS letter-forwarding program began, numerous alternative missing person locator resources, including the Internet, have become available to assist a plan sponsor or plan administrators in locating a missing participant or beneficiary who is owed a retirement benefit. Available options already exist to locate missing participants, including the social security letter-forwarding program and services offered by credit reporting agencies.

Quik Tips

1

Employer-provided transit benefits have been extended, making them a tax-free fringe benefit through December 31, 2013.

2

Automobiles placed in service in 2013 that qualify for bonus depreciation are allowed a maximum first-year depreciation of \$11,160.

3

The maximum net self-employment earnings subject to the social security part of the self-employment tax is \$113,700 for 2013.

4

For 2013, the standard mileage rate for each mile of business use is 56.5 cents.

5

The rule that the decrease in a shareholder's basis in his/her S corporation stock because of a charitable contribution made by the S corporation equals the shareholder's pro rata share of the adjusted basis of the contributed property is extended for contributions in tax years beginning before January 1, 2014.

Material Participation in a Business

Are your losses deductible?

You can have a significant financial interest in a business, and yet not materially participate. You are required to identify the amount of your participation in a trade or business activity for each year and are considered to materially participate in an activity that you work on for a regular, continuous and substantial basis in business operations.

If you don't materially participate, your losses are considered passive. This generally means the losses are only deductible against passive income. Passive losses can carryforward and are fully deductible in the year the activity is disposed of.

Material participation is time sensitive. You are considered to materially participate in an activity only if you meet any one of the following seven material participation tests:

1. You work 500 hours or more during the year in the activity.
2. You substantially do all the work in the activity.
3. You work more than 100 hours in the activity during the year and no one else works more.
4. You work 100-500 hours in multiple significant participation activities (SPA) and the sum of the SPAs exceed 500 hours for the year.
5. You materially participated in the activity in any 5 of the prior 10 years.

6. The activity is a personal service activity and you materially participated in that activity in any of the 3 prior years.
7. Based on all of the facts and circumstances, you participate in the activity on a regular, continuous and substantial basis during such year. However, this test only applies if you work at least 100 hours in the activity, no one else works more hours and no one else receives compensation for managing the activity.

This summer, set-up an appointment with me to discuss your material participation in your business.

Local Lodging Expenses Safe Harbor *IRS provides some guidance on this fringe benefit*

Sometimes you may require your employees to stay overnight at a hotel even though they live in the area. The IRS has issued proposed regulations that provide a safe harbor for taxpayers to deduct expenses for local lodging.

These business expenses must be ordinary and necessary in order to be deducted. Some of the circumstances in which the lodging expenses can be excluded from income under accountable plan rules or as working condition fringe benefits include situations where:

- The lodging is necessary for the individual to participate fully in or be available for a bona fide business meeting, conference, training activity or other business function.
- The lodging is for a period that does not exceed five calendar days and does not recur more frequently than once per calendar quarter.

- The employer requires the employee to remain at the activity or function overnight.
- The lodging is not lavish or extravagant under the circumstances and does not provide any significant element of personal pleasure, recreation or benefit.

It is recommended that employers review their fringe benefit/expense policies and determine if any changes need to be made to accommodate these situations.

