SMALL BUSINESS TAX DEDUCTION STRATEGIES

BusinessManagement DAILY

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13 tips on achieving write-offs through donations, retirement plans, IRA transactions, home sales, business equipment and trusts

Special Report from www.BusinessManagementDaily.com

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Small Business Tax Deduction Strategies

13 tips on achieving write-offs through donations, retirement plans, IRA transactions, home sales, business equipment and trusts

Savvy small business owners take a proactive approach to seizing all the business tax deductions they're legally entitled to under current tax law. Don't add to your tax bill by overlooking crucial write-offs.

Small Business Tax Deduction Strategies lays out 13 shrewd tax-planning moves you can make to reap the biggest tax savings. **Tax laws change fast, so always keep an eye on the news!**

Small Business Tax Deduction Strategies #1

7 tax moves for a small business

As with individuals, tax reforms could potentially affect your small business, but the prospects are still uncertain.

Strategy: Take advantage of current loopholes in the tax law. By making smart moves at the end of the year, you might save your business thousands of tax dollars.

Following are seven tax strategies that may work out for your situation.

1. Max out on Section 179. Under Section 179 of the tax code, a business can currently deduct, or "expense," the cost of qualified new or used property placed in service during the year, up to a stated limit. The Protecting Americans from Tax Hikes (PATH) Act permanently preserved a maximum $500,000 allowance, subject to inflation indexing. But the deduction is limited to your taxable business income and reduced dollar-for-dollar for acquisitions above a $2 million threshold, also indexed for inflation.

Tip: The maximum allowance for 2017 is $510,000, and the threshold is $2,030,000, respectively. Keep these limits in mind at the end of the year.

2. Pounce on bonus depreciation. Besides the Section 179 allowance, your business may be able to claim "bonus depreciation" for qualified property placed in service in 2017. But this tax break, which was also reinstated by the PATH Act, is being gradually phased out. It remains at 50% through 2017, before dropping to 40% in 2018 and 30% in 2019. After 2019, bonus depreciation is scheduled to completely expire, so plan accordingly.

Tip: Unlike the Section 179 provision, bonus depreciation is limited to new property. Used property doesn't qualify.

3. Spruce up business premises. Generally, amounts paid to improve tangible property must be capitalized and depreciated over time, but recent regulations provide a unique opportunity. Under a safe-harbor election in the regs, your small business may currently deduct certain building costs above and beyond the maximum Section 179 allowance. Among other requirements spelled out in the regs, the election is limited to $500 for a specific item or $5,000 if you have an "applicable financial statement" audited by a CPA.

Tip: This election is only available to qualified small businesses with $10 million or less of average gross receipts.

4. Salvage a bad debt deduction. If you haven't been able to secure payment for products you've distributed or services you have performed, you have a tax ace up your sleeve. At least you can still deduct business bad debts that have become totally worthless if you make good-faith efforts to collect the past-due amounts. Keep detailed records of all your collection activities. This documentation might be needed to support claims of worthlessness if the IRS challenges the deductions.

Tip: If you use the specific charge-off method, you can deduct business bad debt that has become partially worthless during the year.

5. Speed up deduction for bonuses. If you operate your company on the accrual basis, you can deduct year-end bonuses in the current year as long as they are paid within 2½ months of the close of the tax year. Therefore, a calendar-year business may deduct bonuses on its 2017 taxes, even if the compensation is paid as late as March 15, 2018. But this special deduction rule doesn't apply to bonuses paid to majority shareholders of a C corporation or certain owners of S corporations or personal service corporations.

Tip: Spell out details of bonuses in your corporate minutes.

6. Switch inventory methods. For inventory valuations, a business will generally use either the "first in, first out" (FIFO) method or the "last in, first out" (LIFO) method. Under FIFO, the first goods acquired are considered the first ones sold. With LIFO, the last goods acquired are treated as the first ones sold. If prices in your industry have risen, you might consider switching from FIFO to LIFO at year-end. Because the inventory is based on a higher price to your business, your taxable gain is reduced.

Tip: You can continue to benefit from the FIFO method if prices keep rising.

7. Jump-start a business venture. Instead of taking write-offs over time, you may deduct up to $5,000 of your qualified startup expenses paid this year. Startup expenses are generally costs that would normally be deductible by an ongoing business entity. For instance, this might include certain advertising and marketing expenses, as well as fees paid to outside consultants. But make sure you're actually "open for business" before Jan. 1, 2018. To qualify for the fast write-off, you must have commenced operations in 2017.

Tip: Any startup expenses above the $5,000 limit must be amortized over 180 months.

Small Business Tax Deduction Strategies #2

3 good ideas for bad debts

Are you having trouble collecting money for goods or services your business has provided? Consider these three strategies for securing bad-debt deductions.

1. Prove it's worthless. Your company can deduct a bad business debt in the year it becomes partially or totally worthless. However, if the debt isn't worthless (i.e., it can still be collected), you're not entitled to any deduction. If the debt is a customer receivable owed to your business, you must use the accrual method of accounting and have accrued income from the receivable to claim a later bad debt write-off.

Strategy: Keep detailed records of all your company's efforts to collect bad debts.

This includes any correspondence such as dunning letters, emails, telephone calls or efforts by a collection agency. These records are the best proof of worthlessness if the IRS comes calling.

2. Separate business from personal. In contrast to business bad-debt deductions, a nonbusiness bad debt is deductible only when it becomes totally worthless. Also, the debt is treated as a short-term capital loss, which can only be used to offset capital gains plus up to $3,000 of ordinary income.

Strategy: Establish in your corporate minutes that business bad debts aren't personal advances or loans.

To be deductible as a bad business debt, a loan must be tied to your business or result in a business loss if it goes sour.

3. Pay yourself now or pay later. The IRS often questions bad-debt deductions for loans made by employee shareholders to their companies. It may say the loan represents a contribution to the capital of the employer entity.

Strategy: Make sure you're paid a reasonable salary in the year you take a bad-debt deduction.

This shows your main motive was to protect yourself as an employee (not an employer), which will permit a bad-debt deduction if the loan isn't repaid. *Note:* If you lend the company more than the compensation you're receiving, it's likely the advances will be treated as contributions to capital.

Tip: A nonbusiness bad-debt loss is better than nothing.

Small Business Tax Deduction Strategies #3

Shelter a personal residence from tax

The generous federal estate tax exemption—$5.49 million in 2017—can shield most estates from the federal estate tax, but some wealthy individuals need extra protection, especially if they own a lavish home.

Strategy: Set up a qualified personal residence trust (QPRT). This allows you to remove your home from your taxable estate with a reduced or no gift tax obligation.

In some cases, a QPRT can save your family hundreds of thousands of tax dollars.

Here's the whole story: With a QPRT, you create a trust and transfer a home to it, naming yourself as trustee. The place can be your primary residence or a vacation home.

As the grantor, you retain an interest after the transfer to the trust, just like you would with a grantor retained annuity trust (GRAT). Usually, the interest is the ability to live in or use the home for a certain period of time.

Note, however, that unlike GRATs, QPRTs don't generate a stream of income during the trust term. At the end of the term, the home passes to the trust beneficiaries, usually your children, so you're making a taxable gift. Because it's a deferred gift, the taxable gift may be a fraction of the current value, based on the prevailing Section 7520 rate.

Example: You transfer your $1 million home to a QPRT in 2017 at age 60 and retain the right to live there until age 80. If you outlive the trust term, the home passes to your three children.

Assuming a Section 7520 rate of 2.4% (the rate in June 2017), the initial taxable gift is valued at around $361,000. As long as your lifetime gifts don't exceed the unified $5.49 million estate and gift tax exemption, no federal estate tax will be owed, although a federal gift tax return must be filed. (*Caution:* There may be state tax consequences.)

If you survive the 20-year term, the residence passes to your children, free of any federal gift or estate tax consequences.

Suppose that the home is worth double its current value at that point. As a result, you'll have passed a $2 million home to your children at a gift tax cost of a mere $361,000. Because this is a gift of a future interest, the $14,000 annual gift tax exclusion isn't available.

Tip: This is just a quick overview. Obtain more details from an estate planning pro.

Small Business Tax Deduction Strategies # 4

Focus on constructive dividends

When a small business corporation is successful, it may pay out dividends to its shareholders, including the owner running the company. Although dividends paid by C corporations are taxable to the extent of the company's earnings and profits (a tax term of art), they generally are eligible for preferential federal income tax treatment, just like long-term capital gains. Currently, the top federal rate on qualified dividends received by an individual taxpayer is 15%, or 20% if you're in the top rate bracket.

Conversely, compensation is taxable to recipients at ordinary income rates, but these amounts are deductible by the company. Dividends are not deductible. For this reason, C corps usually prefer for payouts to shareholder-employees to be treated as compensation rather than dividends.

New decision: A husband and wife, residing in California, were the sole shareholders of a C corp (51% for the husband, 49% for the wife) involved in helping to originate home mortgages. The company acted as an independent contractor for California Mortgage Group (CMG), soliciting clients. After selected clients were referred to CMG, they were offered mortgages.

During the tax years in question, the wife was the only employee of the corporation, while the husband worked full time at a high school, supervising and teaching special needs students. The wife's sole responsibility for the corporation was client recruitment for CMG. She kept a desk in CMG's main office and worked there at least two days a week. She also testified at trial that she worked from home the rest of each week and usually met clients at home or a public place.

For 2012 and 2013, the corporation deducted numerous expenses, including travel and entertainment expenses, insurance, telephone expenses, advertising and gifts, medical expenses, utilities and maintenance, dues and subscriptions and depreciation. Some of these expenses were used for repairs to the couple's personal residences, to buy swimming pools and for personal entertainment.

The IRS challenged most of the reported expenses due to lack of substantiation or a valid business purpose. It said the payments constituted disguised dividends.

Tax result: The Tax Court sided with the IRS. Many of the corporation's expenses that were labeled as marketing and promotional payments were actually used for personal purposes and directly benefitted the shareholders. Thus, the payments were nondeductible disguised dividends that benefitted the shareholders rather than deductible expenditures that benefitted the corporation. (*Luczaj & Associates*, TC Memo 2017-42, 3/8/17)

Small Business Tax Deduction Strategies # 5

Nail down casualty loss deductions

At this time of year, taxpayers throughout the country are at risk for various types of natural disasters, including hurricanes, tornadoes and wildfires.

Strategy: Keep detailed records if your personal (nonbusiness) property is damaged or destroyed. Although it is small solace, you may be able to claim a casualty loss deduction on your 2017 tax return.

Generally, losses from all casualties during the year are lumped together for tax purposes. However, your annual deduction is subject to strict limits.

Here's the whole story: To qualify for a casualty loss deduction, the regulations say that the damage must be caused by an event that is "sudden, unexpected, or unusual." Typically, this includes damage from natural disasters like hurricanes, tornadoes, earthquakes and the like; but it also applies to events like car collisions. But deterioration or wear and tear occurring over a long period of time—such as loss of property due to a drought or insect infestation—isn't eligible for the deduction.

The umbrella for casualty losses also covers vandalism and theft of property. All these events are treated the same tax wise.

But you can't just deduct the full amount of your loss. For starters, the amount of your personal casualty loss is limited to the lesser of:

- ☐ The adjusted basis of your property
- ☐ The decrease in fair market value of your property as a result of the casualty.

For income-producing property (e.g., rental real estate) that is completely destroyed, the amount of your loss is limited to your adjusted basis in the property.

The adjusted basis of your property is your cost plus certain adjustments for improvements and depreciation. For example, if you acquired your home for $500,000 and added an in-ground swimming pool and deck for $100,000, your adjusted basis in the home is $600,000.

In addition, the deductible loss must be reduced by any insurance reimbursements you receive. File a timely insurance claim for any loss. Otherwise, you can't deduct the loss on your return.

Finally, after you've figured out the amount of your loss that is potentially eligible for the deduction, two subtractions apply in determining the deductible loss amount:

1. Your total loss deduction for the year is reduced by 10% of your adjusted gross income (AGI).

2. The loss deduction is also reduced by $100 for each casualty or theft loss event.

Example: You expect your AGI in 2017 to be $100,000. So far, it's already been a bad year for you. In February, a severe storm caused damages of $10,000 above insurance to your home. In June, you were involved in an auto mishap, and it cost you $2,500 out-of-pocket to get your car fixed. And then your newly repaired car was vandalized in August, setting you back another $1,000 after the insurance reimbursement.

On these facts, there were three separate casualty events during the year. After each loss is reduced by $100, the total potentially eligible for the casualty loss deduction is $13,200 ($9,900 + $2,400 + 900). Because 10% of your AGI is $10,000, your write-off for 2017 is limited to $3,200 ($13,200 – $10,000).

Personal casualty losses are claimed on Schedule A of Form 1040 along with your other itemized deductions. Therefore, if you're a nonitemizer, you get zero tax benefit from casualty losses. Assuming you qualify, make sure you have proof of the amount of losses in case the IRS ever challenges the deduction. Store all the pertinent documentation and visual evidence (e.g., videos or photographs) in a secure location.

Tip: These rules apply to losses of personal (nonbusiness) property. There is no $10%-of-AGI threshold or $100-per-event reduction for business property casualty losses.

Small Business Tax Deduction Strategies # 6

Score tax breaks for business meals

A new decision made in favor of a hallowed professional hockey team may lead to tax breaks for employers of all stripes.

Strategy: Furnish meals to employees when it suits your business purposes. If certain requirements are met, the meals are tax free to the employees as a fringe benefit and deductible by your company.

Generally, the meals must be furnished on-site to qualify for this double-dip. But the new decision involving the Boston Bruins, one of the NHL's original six franchises, shows that off-site meals may be eligible under certain conditions. (*Jacobs*, 148 TC No. 4, 6/26/17)

Here's the whole story: Food and beverages provided by a business are tax free to employees if they are furnished for the convenience of the employer and they are served on the business premises. However, meals are furnished for the employer's "convenience" only if there's a substantial noncompensatory business purpose. For instance, this may occur when workers are "on call" for emergencies.

Normally, an employer can deduct only 50% of the cost of those meals provided to employees, but there are a few key exceptions to this rule. For instance, an employer may deduct 100% of the cost of meals that qualify as a "*de minimis* fringe benefit" (e.g., when it operates a cafeteria for the benefit of employees).

Facts of the new decision: The NHL imposes strict rules on teams regarding travel to away games. Accordingly, the Bruins made arrangements for food and lodging for players and staffers at various hotels during the season. Typically, the hotels provided banquet rooms where meals and pregame snacks were served.

After the owners deducted 100% of their pre-game meal costs under the exception for eating facilities, the IRS disallowed the deduction. The case wound up in the Tax Court.

First, the Tax Court determined that the meals would qualify as a *de minimis* fringe benefit only if they were provided in a "nondiscriminatory" manner. Because the entire staff traveling with the team could partake in the meals, the Bruins met this requirement.

Second, the Tax Court examined whether the eating facility met the following requirements in the applicable regulations:

- ☐ The eating facility must be owned or leased by the employer.
- ☐ The facility must be operated by the employer.
- ☐ The facility must be located on or near the business premises of the employer.
- ☐ The meals must be furnished during or immediately before or after the workday.
- ☐ The annual revenue derived from the facility must equal or exceed its direct operating costs.

The hang-up in this case was the requirement that the facility be located at or near the employer's business premises. But the Tax Court determined that this requirement was met. *Its rationale:* The hotels where the Bruins stayed were places where they were conducting business on road trips. Therefore, the deduction for 100% of the meal costs was allowed as a *de minimis* fringe benefit.

Small Business Tax Deduction Strategies # 7

Steer clear of prohibited IRA transactions

To paraphrase John F. Kennedy, it's not what you do in your IRA, it's what you can't do.

Strategy: Don't engage in any "prohibited transactions." The penalties can effectively wipe out the benefits you received from your IRA in the first place.

Other rules limit the type of investments you can make with IRA funds.

According to the IRS, a "prohibited transaction" is an improper use of an IRA by its owner, the IRS beneficiaries or any disqualified person. For this purpose, a "disqualified person" includes IRA fiduciaries—for example, a professional responsible for managing the IRA funds—or some other family member.

The list of prohibited transactions is a long one. It includes:

- ☐ Borrowing money from the IRA
- ☐ Selling property to the IRA
- ☐ Using the IRA as security for a loan
- ☐ Buying property for personal use with IRA funds
- ☐ Receiving unreasonable compensation for managing IRA funds.

But note that withdrawing funds from an IRA and then depositing the same amount back into the IRA, or a different IRA, within 60 days is treated like a rollover and won't trigger any dire consequences.

What are the penalties? When a prohibited transaction occurs, the account stops being treated as an IRA as of the first day of the year of the violation. *Net effect:* You're treated like you received a taxable distribution of all the IRA assets on Jan. 1 of that year. In that case, you owe ordinary income tax on the difference between the value and your basis, as with any other withdrawal. If you're in the peak earning years, you'll have to pay tax at rates reaching up to 39.6%.

Tip: To add insult to injury, you'll generally owe a 10% penalty tax if you're under age 59½.

No-nos in your IRA

Generally, you can't use IRA funds to invest in collectibles, including the following:

- ☐ Artwork
- ☐ Rugs
- ☐ Antiques
- ☐ Precious metals (with exceptions for certain bullion that meets purity standards)
- ☐ Gems
- ☐ Coins and stamps (with some exceptions)
- ☐ Rare alcoholic beverages
- ☐ Certain other types of tangible personal property.

Tip: A limited exception exists for certain U.S. Treasury gold and silver coins.

Small Business Tax Deduction Strategies # 8

Should you own or rent your business premises?

Once your company's profits begin growing and your business stabilizes, you might want to consider owning your quarters rather than renting.

To evaluate the comparative costs, consider a reasonable length of time, such as 10 years. Include in your calculations the purchase price of a desirable building at the location you want. You can depreciate the cost of the building ("improvements") but not the cost of the land. Add together the cost of financing 100% of your purchase price at the prevailing interest rate, maintenance costs, straight-line depreciation and property taxes. The total of these items is your "rent equivalent."

Compare this cost figure with your projected rental costs for 10 years and factor in expected rent increases (4% per year is realistic). Don't overlook your company's future expansion needs. Whether you buy or rent, you must be able to expand or contract space as needed. If you plan to own your space, you may want to consider buying a larger building and renting out part of your space on a short-term basis.

How a 'private arrangement' can slash your taxes

Suppose you decide to own rather than rent your business property. In that case, you have another decision to make: Who should own the real estate: you or the corporation?

Usually, you would be better off owning the real estate and leasing it to the company if it's a C corporation. The corporation probably can get a full deduction for the lease payments it makes to you. This will reduce the corporate income tax it has to pay.

At the same time, if you own the building, you can depreciate it. The depreciation deductions can offset all or part of the rental income you receive. If you wind up with a net loss from the property, it might be deductible; even if that's not possible, you might be able to deduct your payments for real estate taxes and mortgage interest.

Plus, if the building appreciates, it's easier to cash in on gains (refinancing, property sale) without adverse tax results if you hold it personally rather than through a corporation.

Use property for business? Depreciate it

Depreciation is a tax deduction for the wear and tear and deterioration of property used in business activities. It effectively enables you to "recover" the cost of certain property over time for tax purposes.

Alert: This includes deductions for the depreciation of machinery, equipment, buildings, vehicles and furniture. But you can't claim depreciation on property held for personal purposes.

If you use property, such as a car, for both business or investment and personal purposes, your depreciation deduction is based on the business or investment use of that property. Special rules and limits often apply, especially if you're an employee. In some cases, you may qualify for a simplified option, such as deducting the standard mileage rate for business use of a vehicle or claiming the streamlined deduction for home office expenses.

Tip: Usually, you'll fare better tax wise by keeping track of your actual expenses.

Small Business Tax Deduction Strategies # 9

Moving deduction hits the brakes

If you are making a move because of your job, you may be entitled to deduct certain moving expenses.

Alert: The write-off isn't automatic. To qualify for this tax break, you must meet a two-part tax law test involving distance and time.

Note that the requirements in this area are very specific.

1. Distance test: Your new job location must be at least 50 miles farther from your old home than your old job location was from your former home. For this purpose, the IRS uses the shortest of the most commonly traveled routes to measure the distance between the two points.

2. Time test: If you're an employee, you must work full time for at least 39 weeks during the first 12 months after you arrive in the general area of the new job. But you don't have to work for the same employer as long as the 39-week test is satisfied.

Assuming you qualify, you can typically write off the reasonable costs of moving household goods and personal effects to your new home, plus travel expenses (including lodging, but not meals) between the two locations. Normally, this will include charges by a moving company or a truck rental.

As shown in a new case, the IRS is adamant that you must meet *both* parts of the tax law test.

Facts of the case: The taxpayer, a CPA, pulled up stakes in Pennsylvania and moved to California. He arrived on March 7 and, relying on business contacts, began his job search. On June 7, he signed a one-year employment agreement with a firm, but he did not start working until July 16 and actually received his first paycheck on July 22.

Obviously, this taxpayer had no problem with the distance test, since he clearly moved all the way across the country. But what about the time test? Unfortunately, he doesn't technically qualify because he did not work for 39 weeks during the 12 months after his arrival. *Bottom line:* The deduction for moving expenses was denied. (*Anderson*, TC Summary Opinion 2017-17, 3/16/17)

Tip: When possible, take taxes into account when planning a job-related move.

Small Business Tax Deduction Strategies # 10

When to lease, not buy, equipment

Consider leasing business equipment instead of buying it. Generally, you can write off the entire cost of leasing without a huge upfront commitment.

Also, leasing isn't forever. If the tax breaks for buying property are revived, you may be able to quickly cash in.

Here's the whole story: When you lease equipment, it's often under a fair market value lease (or a "true lease"). This gives you the option to return the equipment at the end of the lease term with no obligations. You can walk away, or if you want to continue to use the equipment, you can renew the lease or buy the equipment at the going price.

With that type of true lease, you can deduct your annual lease payments in full. That may be preferable to buying equipment that will result in multiyear depreciation deductions. For example, a three-year lease may provide more valuable tax benefits than equipment that must be depreciated over seven years.

Furthermore, the alternative minimum tax (AMT) may limit your depreciation deduction for equipment purchases. In contrast, the AMT doesn't reduce deductions for leasing equipment. Therefore, if your company can't take full advantage of the tax benefits of owning equipment, leasing may be a better option.

5 nontax benefits of leasing

There are at least five nontax advantages of leasing over buying equipment.

1. Smaller capital outlay: Leasing requires a lower upfront cash expenditure than the 10% to 20% down payment often required for purchased equipment. As a result, your business can keep more cash on hand for other purposes.

2. Keeping up-to-date: When you buy equipment, you run the risk that it will become obsolete before the end of its useful life. But leasing usually provides three options at the end of the lease term: Renew the lease, buy the equipment or just walk away.

3. Short-term goals: If your company only needs the equipment for a relatively short period of time, leasing could be the way to go. Conversely, if you buy the equipment, you'll have to recoup part of the cost through a resale.

4. Lower acquisition costs: Certain types of equipment may be more available at a reasonable price from leasing companies. Plus, leasing may speed up the acquisition process.

5. Favorable accounting procedures: Notably, certain equipment obtained via a lease may not need to appear on your company's balance sheet. That, in turn, can help your overall financial picture with lenders and potential investors.

When you add up all these factors—including both tax and nontax considerations—it often doesn't pay to buy business property that will be outdated relatively soon.

Of course, leasing isn't *always* the best option. Buying equipment may still be a smart move in many cases, especially if you get a good deal on the purchase and you expect to use the equipment for most of its useful life.

Small Business Tax Deduction Strategies # 11

Self-employed tax deductions: your home office

While some view the home office deduction as audit bait, you'll withstand any IRS scrutiny if you know and follow the home office deduction rules.

Here's how to earn bigger and better deductions without getting off the living room couch.

Home office rules: the basics

Whether you're a butcher, a baker or a candlestick maker, you can deduct your home office expenses if you use part of your home **"regularly and exclusively"** as either:

1. Your **principal place of conducting business**.

2. A place to meet or deal with clients, customers or patients in the normal course of business.

Also, you can deduct expenses attributable to a detached structure—such as a garage or shed—that's used in connection with your business (e.g., to store inventory).

If you're an employee, you must use the home office for the **convenience of the employer**, not yourself.

These basic rules are simple enough, but the key terms *(boldfaced above)* require further explanation.

What's 'regular and exclusive use'?

To meet the requirement for "regular and exclusive use," you must use a specific area of your home for business purposes only. That area can be a room or even a separate space within a room. The space doesn't have to be permanently enclosed, but doing so strengthens your tax position.

If you occasionally use the office portion of the home for personal reasons, it will taint the "exclusivity" of the home office. Therefore, you won't be able to take the deductions.

Advice: Buy a separate PC or laptop for your personal use. Otherwise, if you spend personal time on the home office PC, this will technically eliminate your chance at a deduction.

Note that certain exceptions for the "regular and exclusive use" requirement apply to day care centers and facilities for the aged or disabled.

And if a home is the principal place of a business and a specific area is used for inventory or product storage, the area qualifies for depreciation deductions if you use it regularly—but not necessarily exclusively—for business.

What's a 'principal place of business'?

If you're self-employed and work exclusively from home, it's obvious that your home office is your principal place of business. But this determination isn't so clear-cut in other cases.

For instance, you may perform some business functions at home, but spend most of your time visiting clients at other locations.

The IRS says that you will qualify for home office deductions if you perform administrative and management functions at the home office and use no other fixed business location for these functions. Administrative and managerial activities may include billing, keeping records, ordering supplies, setting up appointments, and researching and writing reports.

However, you aren't disqualified if you arrange to have administrative or managerial duties performed at other locations. For example, you might outsource payroll duties or handle customer inquiries on your laptop in hotels or airports. Similarly, you won't incur penalties if you spend more time on the road than at home.

Strategy: Use your home office even if another place has been set aside for your administrative activities. The tax law test isn't based on the *most suitable* location; it's where these functions are actually performed.

What's 'employer's convenience'?

Employees can deduct home office expenses only if their employer requires them to maintain a home office.

So, an industrious worker who brings work home nights and weekends usually doesn't qualify. It doesn't matter if the work at home results in a benefit to the employer; it must be a condition of employment.

Strategy: To secure the write-off, employees should make sure the home-office requirement is spelled out in a contract or company manual.

Expand home office write-offs

Which home office expenses can you deduct (and how much)? For starters, you can write off all your "direct" costs, such as a separate business phone line and dedicated fax line.

Plus, you can deduct a proportionate share of your "indirect costs." Those include mortgage insurance, property taxes, utilities, repairs, insurance fees, plus a tidy depreciation deduction for the portion of the home used as an office.

To figure out the percentage of your indirect costs to deduct, the IRS generally expects you to use a percentage based on the home's square footage. For example, if the home is 3,000 square feet and you use a 240-square-foot room for the office, you can write off 8% of your indirect expenses.

But don't stop there. The IRS also allows you to use any other "reasonable method" to figure deductions.

Strategy: Count the main rooms in the home. Then divide the number of rooms used regularly and exclusively for business by the total number of rooms. If that

calculation produces a bigger percentage than the square-foot method, use it on your return. The IRS accepts the per-rooms method.

Looking at the previous example, say your 3,000-square-foot home has eight main rooms. If you use one room as an office, you can deduct 12.5% of the qualified expenses (1 divided by 8) instead of only 8%.

But there's one limit to contend with: Your annual home office deduction with either method can't exceed the gross income from the business minus any other expenses (other than the home office expenses). You must carry over any excess.

Final tip: Take photos as proof of the space you used for business, and keep them in your tax return folder in case you're ever audited.

Small Business Tax Deduction Strategies # 12

Count tax in the 'sharing economy'

Have you become part of the "sharing economy" that is taking the U.S. by storm? For instance, you might provide car-driving services for outfits like Uber or Lyft or rent out a vacant home or room through Airbnb.

Strategy: Be aware of the tax implications. Generally speaking, you're treated like a self-employed individual as far as the IRS and state taxing authorities are concerned, so you must meet the usual requirements.

To help taxpayers navigate the maze of rules, the IRS has established a "Sharing Economy Tax Center" at www.irs.gov.

Here's the whole story: If you receive income from a sharing economy activity, it's generally taxable, even if you don't receive a Form 1099-MISC, *Miscellaneous Income*; Form 1099-K, *Payment Card and Third Party Network Transactions*; or Form W-2, *Wage and Tax Statement*. It doesn't matter if it's just a "side job" or you're paid in cash. On the other hand, depending on your situation, some or all of your business expenses may be deductible, subject to the usual tax rules.

Filing requirements: Whether or not you participate in the sharing economy, if you receive a payment during the calendar year as a self-employed individual, an employee or a small business, you may be required to file a tax return reporting that income to the IRS. This includes payments in the form of money, goods, property or services.

Estimated tax payments: You may have to make estimated tax payments on income that isn't subject to withholding (e.g., income from self-employment and rental activities). You may also want to pay estimated tax to the IRS to avoid penalties if the amount of income tax withholding from your salary, pension or other income isn't enough to cover your federal income tax bill (including any self-employment tax that is due) for the year.

Typically, self-employed taxpayers use estimated tax payments to pay both income tax and self-employment tax (which covers your Social Security and Medicare taxes). If you don't pay enough tax, through either withholding or estimated tax or a combination, you may owe a penalty. The due dates for quarterly installments are the same as they are for self-employed individuals.

If you don't comply with these responsibilities, you may be charged a penalty, even if you're due a refund when you file your tax return. However, if you also work as an employee, you can often avoid estimated tax payments by arranging to have more tax withheld from your paychecks. Make the adjustment on Form W-4 for your company.

Self-employment tax: Self-employed individuals (e.g., independent contractors) must pay self-employment tax consisting of Social Security and Medicare taxes. With no employer matching of these taxes, self-employed individuals must pay the full amount of Social Security and Medicare taxes themselves. Thus, the tax rates are double the rates for employees, but self-employeds can then deduct half the tax.

Tip: The tax rules in this area are still evolving. Expect more guidance from the IRS soon.

Small Business Tax Deduction Strategies # 13

Introduce your kids to the Roth

Believe it or not, even your teenagers can benefit from tax-saving retirement plans.

Strategy: Have your child contribute part or all of their summer and after-school wages to an IRA. The contributions can grow into a tidy tax-deferred nest egg over time.

Even better, your child can opt for a Roth IRA for greater tax savings. For 2017, the Roth contribution limit is the lesser of your child's earned income for the year or $5,500.

Here's the whole story: Unlike contributions to a traditional IRA, you can never deduct the pay-ins to a Roth. But the tax deduction probably won't do your child much good this year, if any, due to his or her low tax bracket.

On the other hand, future distributions from traditional IRAs are generally taxable, while qualified Roth IRA payouts are federal income-tax free.

Example: Say your 15-year-old daughter earned $3,000 from her summer job. She decides to contribute the $3,000 to an IRA. To keep things simple, let's say she continues to make annual contributions of $3,000 and earns a return of 8% a year.

Assuming that your daughter will be in the 28% federal tax bracket when she reaches the age of 60, she can expect to receive an after-tax distribution of $999,209. But she actually could pull down $1,252,278 tax free from a Roth—or $253,069 more. (Because all of the income is received in one year, part of the payout would be taxed at the higher tax rates, topping out at 39.6%.)

If your daughter isn't inclined to contribute her summer job earnings to an IRA, you might consider lending her a helping hand. For instance, you could give her the $3,000 this year to contribute to the Roth IRA. It doesn't matter that you're the one actually supplying the cash for the contribution.

You can even fund a Roth IRA for a child who hasn't worked yet. Suppose your retired mother watches your infant child for you and your spouse. If you pay Mom for her babysitting services, she can set up a Roth IRA for herself and name her grandchild—your infant—as the beneficiary. Then your mother can contribute to the Roth within the annual limits. (For 2017, the maximum contribution for someone age 50 or over is $6,500.)

Tip: Distributions from this Roth can ultimately be stretched out over the child's life expectancy.

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http://www.businessmanagementdaily.com/EffectivePerformanceReview

Workplace Conflict Resolution: 10 ways to manage employee conflict and improve office communication, the workplace environment and team productivity

Learn how to manage employee conflict and improve office communication and team productivity. Disputes between employees are inevitable…left unresolved, they can disrupt your department's productivity, sap morale and even cause some good employees to quit. Learn 6 steps for managing "difficult" employees, what to do when employees resent another's promotion, learn when and how to step in to referee disputes, and much more.

www.businessmanagementdaily.com/WorkplaceConflictResolution

Maternity Leave Laws: 7 guidelines on pregnancy discrimination law, state maternity regulations, pregnancy disability leave, plus a sample maternity leave policy

It's important to know what you must do—and what you can't do (or say)—under federal anti-discrimination and maternity leave laws. And it's vital to double-check state maternity leave statutes, which may provide more liberal leave benefits. While no federal law requires you to provide paid maternity leave, most employers must comply with the pregnancy discrimination law and FMLA maternity leave regulations. Here are 7 guidelines on how best to comply with maternity leave laws, plus a sample leave policy you can adapt for your own organization.

www.businessmanagementdaily.com/MaternityLeaveLaws

The Office Organizer: 10 tips on file organizing, clutter control, document management, business shredding policy, record retention guidelines and how to organize office emails

Learn how to keep your office operations running smoothly—and ward off chaos and legal trouble—with practical document management techniques for administrative professionals, office managers and HR professionals.

www.businessmanagementdaily.com/OfficeOrganizer

Best-Practices Leadership: Team management tips and fun team-building activities to boost team performance, collaboration and morale

Learn new team management tips and team-building activities to boost team performance, collaboration and morale. Take our leadership assessment exercise to gauge your own performance as a team manager. See how businesses of all sizes are getting creative with team-building icebreakers and activities. Fight off team complacency with 5 strategies for making team-building exercises part of your daily routine.

www.businessmanagementdaily.com/LeadershipTeamManagement

Employment Background Check Guidelines: Complying with the Fair Credit Reporting Act, conducting credit background checks and running a criminal check to avoid negligent-hiring lawsuits

Employment Background Check Guidelines shows employers and HR professionals how to properly conduct reference/background checks, select third-party background firms and why screening candidates online on social networking sites is legally risky business. Don't allow your organization to risk being held liable for "negligent hiring" or "failure to warn" should an employee turn violent on the job.

www.businessmanagementdaily.com/BackgroundCheckGuidelines

Salary Negotiating 101: 7 secrets to boosting career earnings, negotiating a raise and striking the best deal in a job offer negotiation

Think you deserve a raise, but are afraid to walk into your boss's office and ask? Don't let ineffective negotiation skills hold you back. Employees at all levels can boost their career earnings by following the rules on negotiating a raise, hashing out the best pay package in a job offer negotiation and knowing their market value.

www.businessmanagementdaily.com/SalaryNegotiating101

FMLA Intermittent Leave: 5 guidelines to managing intermittent leave and curbing leave abuse under the new FMLA regulations

One of the biggest employer complaints about the Family and Medical Leave Act (FMLA) is the productivity problems caused by employees' use—and abuse—of FMLA intermittent leave. The problem: Employees with chronic health problems often take FMLA leave in short increments of an hour or less. The Department of Labor took steps to help minimize workplace disruptions due to unscheduled FMLA absences by saying that, in most cases, employees who take FMLA intermittent leave must follow their employers' call-in procedures for reporting an absence. Amend your organization's policies, update your employee handbook and revisit how you track FMLA intermittent leave with these 5 guidelines.

www.businessmanagementdaily.com/FMLAIntermittentLeave

Overtime Labor Law: 6 compliance tips to avoid overtime lawsuits, wage-and-hour Labor audits and FLSA exemption mistakes

Employers, beware: The Department of Labor's Wage and Hour Division reports that wage-and-hour labor litigation continues to increase exponentially. Federal class actions brought under the Fair Labor Standards Act (FLSA) outnumber all other types of private class actions in employment-related cases. Use this special report, Overtime Labor Law: 6 compliance tips to avoid overtime lawsuits, wage-and-hour Labor audits and FLSA exemption mistakes, to review your overtime pay policy and double-check your FLSA exempt employees' status. Expecting a visit from a DOL auditor? Get prepared by taking the self-audit at the end of this report.

www.businessmanagementdaily.com/OvertimeLaborLaw

Office Communication Toolkit: 10 tips for managers on active listening skills, motivating employees, workplace productivity, employee retention strategies and change management techniques

A manager's job is 100 times easier and more rewarding when his or her employees are performing like a well-oiled machine. But when that machine runs slowly or breaks down entirely, a manager's job becomes exponentially harder. The best managers are the best listeners … listen to our 10 tips and maximize office communication skills and bolster workplace productivity.

www.businessmanagementdaily.com/OfficeCommunicationToolkit

Workplace Violence Prevention Toolkit: HR advice, guidelines and policies to keep your workplace safe

Unfortunately, in the wake of a spate of workplace shootings, HR professionals and managers nationwide must consider the horrific possibility of violence erupting at their own facilities and events. To help employers prevent tragedy, this toolkit offers business advice, guidelines and policies aimed at keeping workplaces safe from employee violence. Learn prevention strategies, tips on identifying potentially violent workers, managerial advice on maintaining a safe workplace. It includes two sample anti-violence policies, adaptable for use in any company, plus checklists to use in case violence erupts.

www.businessmanagementdaily.com/WorkplaceViolencePrevention

14 Tips on Business Etiquette: Setting a professional tone with co-workers, clients and customers

For organizations and employees alike, recognizing the critical link between business protocol and profit is key to your success. Learn how to confidently interact with colleagues in ways that make you and your whole organization shine. Discover best practices on making proper introductions; cubicle etiquette; "casual dress" rules; handshake protocol; guest etiquette; workplace behavior faux pas; business dining etiquette, office wedding invites and other co-worker special occasions; business letter and email protocol—and even how your office decorations may affect your professional image.

www.businessmanagementdaily.com/BusinessEtiquette101

12 Ways to Optimize Your Employee Benefits Program: Low-cost employee incentives, recognition programs and employee rewards

If you've had to cut pay and staff and now expect more from those who remain, it's vital to revamp your employee recognition and rewards program. Employers can double their rewards and recognition efforts in innovative, cost-efficient ways with employee-of-the-month awards, employee incentive pay, employee appreciation luncheons, more time off, shopping sprees, wellness incentive contests, plus employee rewards customized to motivate Millennials, Gen Xers, Baby Boomers and the Matures. Now is the time to get clever with your employee recognition programs. This report shows you how with great ideas offered up from our Business Management Daily readers.

www.businessmanagementdaily.com/EmployeeBenefitsProgram

The Bully Boss Strikes Again! How to deal with bosses who make crazy requests

And you thought your boss was unreasonable? Bet he never asked you to perform oral surgery or fill in for the bomb squad. Talk about "other duties as assigned!" Even if your direct supervisor swamps you with petty tasks and doesn't appreciate all you do, you can always "manage up" to make sure the boss's boss knows your worth. This report includes practical advice on how to manage a toxic boss along with dozens of outrageous stories about bully bosses.

http://www.businessmanagementdaily.com/BullyBoss

Microsoft Email: Outlook Tips & Training: How to improve productivity by effectively employing under-used features already at your fingertips

We all use Outlook. It's easy. You can answer email, keep your appointments and your calendar, and save your files in various folders. But are you using it to manage your entire workflow? You can. Melissa P. Esquibel combines her 25+ years of experience in information technology with a background in training, technical writing and business risk analysis to move beyond email and help you understand Outlook's amazing workflow benefits. You'll discover how to get more out of Outlook than you ever dreamed possible with this hands-on road map to Outlook that can send your productivity skyrocketing.

http://www.businessmanagementdaily.com/MicrosoftEmailOutlook

17 Team Building Ideas: The team building kit for managers with team building exercises, activities and games to build winning teams today!

With employees still reeling from workplace budget cuts, now's a great time for new team building ideas. No, you don't need an expensive round of paintball to gain the benefits of team building exercises, but you do need to squeeze the most out of them. This report provides teamwork examples, exercises and tips for leading winning teams. Go from being a manager who oversees people to a leader who molds them into winning teams with these 17 team building ideas.

www.businessmanagementdaily.com/TeamBuildingIdeas

10 Time Management Tips: A how-to guide on efficiently managing your time through effective delegating, calendar management and using productivity tools

In this era of downsizing and the quest for efficiency, businesses of all sizes are asking employees to take on extra tasks to boost productivity. Has your job turned into one of those "stretch jobs"? If so, you may be looking for a better way to get more done in less time, reduce stress and stop burning the midnight oil. Read about calendar management, keyboard shortcuts, running productive meetings, setting up agenda templates and using tech tools for project management with these 10 time management tips. Learn to prioritize your tasks and stop working in a crisis mode all the time

www.businessmanagementdaily.com/TimeManagementTips

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