

# TaxTips

small business owners summer 2017

## Your Company Picnic

Employee gatherings may be tax deductible

Do you throw a holiday party, summer outing or a similar type of event for your employees? The expense of providing recreational, social or similar activities (including the use of a facility) for your employees is deductible and isn't subject to the 50% limit. However, the benefit must be primarily for employees who aren't highly compensated.

A highly compensated employee is an employee who meets either of the following requirements:

- Owned a 10% or more interest in the business during the year or the preceding year. An employee is treated as owning any interest owned by his or her brother, sister, spouse, ancestors and lineal descendants.
- Received more than \$120,000 in pay for the preceding year. You can choose to include only employees who were also in the top 20% of employees when ranked by pay for the preceding year.



## Gift Giving

Are the costs deductible?

If you give gifts in the course of your trade or business, you can deduct all or part of the cost. Following are the limits and rules for deducting the cost of these gifts.

### \$25 Limit

Your company can deduct no more than \$25 for business gifts you give directly or indirectly to each person (employee or otherwise) during your tax year.

If your company gives a gift to a member of an employee's family, the gift is generally considered to be an indirect gift to the employee. This rule doesn't apply if you have a bona fide, independent business connection with that family member and the gift isn't intended for the employee's eventual use.

If you and your spouse both own companies and give gifts to an individual, your gifts are combined. It doesn't matter whether you have separate businesses, are separately employed or have an independent connection with the recipient.

A gift to your company that is intended for the eventual personal use or benefit of a particular person or a limited class of people will be considered an indirect gift to that particular person or to the individuals within that class of people who receive the gift.

## Incidental Costs

Incidental costs, such as engraving, packaging, insuring and mailing, are generally not included in determining the cost of a gift for purposes of the \$25 limit. A cost is incidental only if it doesn't add substantial value to the gift.

### Exceptions

The following items aren't considered gifts for purposes of the \$25 limit:

- An item that costs \$4 or less and has your name clearly and permanently imprinted on the gift, and is one of a number of identical items you widely distribute. Examples include pens, desk sets and plastic bags and cases.
- Signs, display racks or other promotional material to be used on your business premises.

## Reimbursing Employees for Business Expenses

What you need to know about accountable and nonaccountable plans

If you have employees, you can reimburse or give them an advance or allowance for business expenses, including but not limited to ordinary and necessary transportation, business entertainment, travel, meals and lodging expenses. These types of payments can either be treated under an accountable or nonaccountable plan. Below, are the requirements for both types of plans.

### Accountable Plans

An accountable plan requires your employees to comply with the following requirements:

- Pay or incur deductible expenses while performing services as your employee;
- Adequately account to you for these expenses within a reasonable period of time; and





- Return any excess reimbursement or allowance within a reasonable period of time.

You are allowed to deduct expense reimbursements to employees who properly comply with the terms of the plan as business expenses (limited to 50% for meals and entertainment). These reimbursements are excluded from the employee's gross income, are not reported as wages or other compensation on the employee's Form W-2, and are exempt from federal income tax withholding and employment taxes.

Reimbursement or Per Diem	Amount Deductible for M&E is 50% of:
Reimbursement	Expenses
Per diem for meal and incidental expenses only	Lesser of per diem allowance or federal rate
Per diem that covers lodging, meals and incidental expenses equal to or greater than federal rate	Federal rate
Per diem that covers lodging, meals and incidental expenses less than federal rate	40% of the per diem allowance

Federal per diem rates for the continental United States are available at [gsa.gov](http://gsa.gov).

You can deduct 80% of the cost of reimbursed meals that your employees consume while away from their tax home on business during or incident to any period subject to the Department of Transportation's "hours of service" limits.

The 50% deduction limit applies to reimbursements you make to your employees for expenses they incur for meals while traveling away from home on business and for entertaining business customers at your place of business, a restaurant or another location. It applies to expenses incurred at a business convention or reception, business meeting or business luncheon at a club.

The 50% limit doesn't apply to an expense for food or beverage that is excluded from the gross income of an employee because it is a de minimis fringe benefit.

### Nonaccountable Plans

A nonaccountable plan is an arrangement that doesn't meet the requirements for an accountable plan. All amounts paid or treated as paid under a nonaccountable plan are reported as wages

on Form W-2. The payments are subject to income tax withholding, social security, Medicare and federal unemployment taxes. You can deduct the reimbursement as compensation or wages only to the extent it meets the deductibility tests for employees' pay.

If you have any questions regarding reimbursing employees for business expenses, I would be glad to assist you.

## Home Office Expenses

Are you taking all available deductions?

Having a home office may provide tax savings. To claim a deduction for the business use of your home, you must qualify under one of the following circumstances:

- You use a portion of your home regularly and exclusively (1) as the principal place of business for a trade or business; (2) as a place to meet with clients, patients or customers in the course of the trade or business; or (3) in connection with your trade or business, if the location is in a separate structure not attached to the home.
- Your employer requires that you maintain a home office for their convenience and you meet the regular and exclusive use requirement.
- Your home is used for the storage of inventory or product samples used in your trade or business of selling products at retail or wholesale, and there is not a fixed location for storage. (The regular and exclusive use requirements do not need to be met.)
- You operate a day care out of your home. (If you do not meet the regular and exclusive use requirements, you can still claim a home office deduction if you are complying with state and local laws in operating your home day care.)

Note: "Exclusive use" means a specific area of your home is used only for your trade or business. The term "principal place of business" includes a place that you use for administrative or management activities of any trade or business if there is no other fixed location where you are able to perform those activities.

## Calculations

There are two ways to calculate your home office deduction. The simplified method uses a standard deduction. If you maintain a qualifying home office, you may elect to deduct annually \$5 per square foot of home office space up to 300 square feet, for a maximum deduction of \$1,500. If you choose this method, you cannot depreciate that portion of your home; however, you can claim allowable mortgage interest, real estate taxes and casualty losses on the home as itemized deductions on Schedule A. 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 actual expense method. Consider 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, casualty losses and depreciation. 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.

## Limitations

The amount of expenses you can deduct are subject to specific limitations and ordering rules. The overall limitation is based on your net income from your trade or business. For employees, this is your wage less other business expenses listed on Form 2106. For self-employed taxpayers, this is the net income shown on your Schedule C without the home office deduction.

Home office expenses can represent a significant dollar amount in reducing your tax liability. I've just provided you with a basic overview of this fairly complicated area of tax law. If you think your situation meets the requirements, give me a call and we can discuss how to qualify for home office deductions. As always, I'm here to help with these calculations.

## Request Form W-9 Before Payment

The info you'll need to file Form 1099-MISC

When non-employees perform work for you in your trade or business, it's important to obtain a Form W-9, *Request for Taxpayer Identification Number (TIN) and Certification*, before paying them. Taxpayers use a Form W-9 to provide their correct TIN to the person who is required to file an information return with the IRS to report income paid to the taxpayer.

If you pay someone who is not your employee \$600 or more, you are required to issue a Form 1099-MISC, *Miscellaneous Income*. You are not required to issue this form for payments made to a corporation. To accurately complete 1099-MISC, you'll need to collect the information contained on the taxpayer's W-9.

It's best to obtain a W-9 before paying the individual. If you wait until after the fact, he or she might refuse to give you one, causing you to have to file an incomplete Form 1099-MISC to the IRS, which can result in you owing back-up withholding. If you plan to pay someone who is not an employee, you may want to consult me to ensure that you are taking proper precautions.

