Simplified Home Office Deduction
Reduce your recordkeeping burden

In an attempt to reduce the administrative, recordkeeping and compliance burdens of small business owners, the IRS provides an optional safe harbor method, called the simplified home office deduction, to compute the allowable deduction for the business-use portion of your home.

The simplified method does not make it easier to qualify for a home office deduction; it only simplifies the calculation of the deduction. It’s also important to know that the safe harbor method is not in addition to the calculation and allocation of actual home office expenses, but rather serves as an alternative.

If you decide to use this method, you must continue to satisfy all of the usual requirements for claiming a home office deduction.

To use the simplified deduction, multiply the allowable square footage of the home office by the prescribed rate of $5. The allowable square footage for business use cannot exceed 300 square feet. Thus, the maximum allowable home office deduction under the safe harbor method is $1,500 (300 square feet x $5).

If you use this method, you can still deduct any business expenses unrelated to the qualified business use of the home, such as advertising, wages and supplies. In addition, you can deduct 100% of the mortgage interest and real estate taxes on Schedule A, Itemized Deductions. However, if there is rental use, you must allocate those expenses between Schedule E, Supplemental Income and Loss, and Schedule A.

You are allowed to switch from the simplified method to actual expenses from year to year. This is not a change in method of accounting and does not require IRS consent.
Outsourcing Payroll Services?
Take note
As an employer, it’s important to remember that you are responsible for all tax deposits, even if you outsource your payroll services to a third party. For example, if you forward the deposit to a payroll company and it fails to make the deposit, the IRS will still assess you for the tax, plus any interest and penalties.

Reimbursing Employees for Health Insurance
ACA excise tax relief available for a short time
Prior to January 1, 2014, employers were able to reimburse or pay health insurance premiums for individual policies. With the passage of the Affordable Care Act (ACA), however, this practice is no longer allowable because it fails to meet certain requirements detailed in the ACA.

If employers continue to reimburse or pay health insurance premiums for individual policies, they will be subject to an excise tax of $100 per day, per employee.

On February 18, 2015, the IRS issued Notice 2015-17, which provides transitional relief from the $100 per day, per employee excise tax for small employers. The Notice states that the IRS will not assess any penalties for reimbursement arrangements for small employers through June 30, 2015. After June 30, 2015, however, they may start assessing penalties.

The IRS will not assess penalties through the end of 2015 to shareholder-employees who hold more than two percent of the S corporation’s stock. For the time being, the IRS will allow these individuals to deduct reimbursed insurance as self-employed health insurance.

Employers that offer a group health plan may integrate it with a reimbursement for Medicare premiums without violating any provisions set forth in the ACA.

In summary, if you are reimbursing or paying health insurance premiums for individual policies, there is some relief available; however, not for long.

Going Out of Business?
Prepare before closing your doors
If you have to make the hard decision to close your business, be prepared for possible tax consequences. You can close your business by selling all of the assets or converting the assets to personal use. The tax impact of selling your business depends on whether you are operating a sole proprietorship or corporation.

If you are a sole proprietor and sell all your business assets, you’ll report the sale of each one separately to determine the gain or loss. If you close your sole proprietorship business and keep all the assets to use personally, you may have to pay tax on the recapture of depreciation on §179 property or listed property.

If you own a corporation, you can either sell the stock or the assets. If you sell the assets, the corporation will pay the tax on any gain. As the shareholder, you don’t have any tax consequences unless the corporation liquidates and distributes the proceeds to you in exchange for your stock. If the stock is sold, you’ll report the sale of your corporate stock on your personal tax return.

If you take the assets out of the corporation, gain or loss is recognized on the liquidating distribution of assets as if the corporation sold the assets to you at fair market value. As the shareholder, you do not have any tax consequences unless the fair market value of the assets distributed exceeds your stock basis.

As with any sales contract, it’s important to determine the tax consequences before signing on the dotted line.
Expired Tax Provisions
Will they be renewed?

In December 2014, President Obama signed the Tax Increase Prevention Act, which extended over 50 expiring tax provisions relating to individuals, businesses and the energy sector. The provisions were set to expire at the end of 2013, but were extended for one year, through December 31, 2014.

So once again, the following provisions have expired:

• $500,000 §179 expense limit.
• $250,000 qualified real property §179 expense limit.
• 15-year recovery period for qualified leasehold improvements, qualified restaurant property and qualified retail improvements.
• 50% bonus depreciation.
• Monthly transit benefit exclusion of $250 per participating employee.

It's expected that at the end of this year, many of these provisions will be extended once again. However, you may want to make increased estimated tax payments just in case.

Attention Day Care Providers
Government releases 2015 per diem rates for meals

The standard meal and snack rates allowed for day care facilities are equal to the Tier 1 reimbursement rates charted below. The Department of Agriculture changes the rates every July; therefore, the IRS uses the rates in effect as of December 31 of the prior year for the entire year (e.g., December 31, 2014, rates apply for all of 2015), even though the CACFP rates change in July.

Day care providers are required to keep a log for the number of meals and snacks served to each child.

Rates are effective from July 1, 2014, through June 30, 2015.

<table>
<thead>
<tr>
<th>Type of Meal Served</th>
<th>Contiguous States</th>
<th>Alaska</th>
<th>Hawaii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakfast</td>
<td>$1.31</td>
<td>$2.09</td>
<td>$1.53</td>
</tr>
<tr>
<td>Lunch and Supper</td>
<td>$2.47</td>
<td>$4.00</td>
<td>$2.88</td>
</tr>
<tr>
<td>Snack (limit 3 per day)</td>
<td>$0.73</td>
<td>$1.19</td>
<td>$0.86</td>
</tr>
</tbody>
</table>

Quick Tips: Affordable Care Act

1. As of January 1, 2015, businesses with 100 or more employees must provide health insurance to 70 percent or more of their full-time equivalent employees, or they could face a tax penalty of up to $2,000 per employee, per year.

2. Starting in 2016, businesses with 100 or more employees must provide health insurance to 95 percent or more of their full-time equivalent employees.

3. Large employers are required to report the cost of the health coverage provided on each employee’s W-2 in Box 12. Failure to report this information could lead to fines of $200 per employee.

4. Businesses that have 25 or fewer full-time employees, pay average annual wages below $50,000 and cover at least half of the premium cost for their employee’s health insurance can qualify for a tax credit of up to 50 percent of employer-paid premiums if purchased through a state or federal Marketplace.

5. All employers must withhold and report an additional 0.9 percent on employee wages or compensation that exceed $200,000.
Attention Truck Drivers and Transportation Workers

Do you know what expenses you should be tracking?

Truck drivers, or other transportation workers, can claim a variety of tax deductions while on the road. Fuel, daily meal allowances, truck repair (maintenance), overnight hotel expenses and union dues are some of the tax deductions available. However, local truck drivers typically cannot deduct travel expenses.

Transportation workers are employed or self-employed individuals whose work directly involves moving people or goods by airplane, barge, bus, ship, train or truck. Their job regularly requires these workers to travel away from home and, during any single trip, usually involves travel to areas eligible for different federal reimbursement rates for meals and incidental expenses (M&IE).

Travel expenses are an allowable expense when business takes you away from home. The IRS generally defines your “tax home” as the home terminal (and its surrounding vicinity) that you use most often or from which most of your income is derived. For the IRS to consider you as being “away from home,” you must be away from your tax home for substantially longer than a day’s work and you must get sleep or rest to safely meet the demands of your job.

Transportation workers can use a special federal M&IE rate, so they do not have to determine the federal M&IE rate for every area they stop for sleep. However, if they use the special rate for any trip, they must use the special rate for all trips they take during that calendar year.

The special federal M&IE rates for transportation workers did not change from 2014 and remain at $59 for travel inside the continental United States (CONUS) and $65 for travel outside the continental United States (OCONUS).

The deductible percentage for meals is 80% rather than 50% for workers subject to the Department of Transportation’s (DOT) hours of service. Workers subject to the DOT’s hours of service rules include:

- Certain air transportation employees (pilots, crews, dispatchers, mechanics and control tower operators) who are under Federal Aviation Administration regulations.
- Interstate truck operators and interstate bus drivers who are under DOT regulations.
- Certain railroad employees (engineers, conductors, train crews, dispatchers and control operations personnel) who are under Federal Railroad Administration regulations.
- Certain merchant mariners who are under Coast Guard regulations.

How you report the reimbursements received from an employer varies depending on the rate of reimbursement and whether your employer has an accountable plan. An employer with an accountable plan may reimburse you using (1) actual expenses, (2) per diem rates or (3) a high-low method.

Your employer may make reimbursements at less than, more than or equal to the federal rates that the IRS considers acceptable as substantiation for travel. Your employer will include any reimbursements in excess of the substantiated amounts on your Form W-2. These amounts are subject to the usual withholding taxes.

You can deduct substantiated expenses that exceed reimbursement on Form 2106, Employee Business Expenses, as employee business expenses subject to the two percent adjusted gross income limitation on Schedule A, Itemized Deductions. In order to claim expenses, you should keep good records of your travel.