

## Self-Employed Health Insurance

*Are you eligible for a deduction?*

Generally, sole-proprietors may not deduct the cost of health insurance when calculating self-employment tax. However, under the *Small Business Jobs Act*, self-employed business owners may be able to deduct the cost of health insurance for themselves and their family.

The deduction is not available if the self-employed individual is eligible to participate in an employer-subsidized health plan maintained by the employer of the taxpayer or the employer of the taxpayer's spouse.

Those who can claim the self-employed health insurance deduction include:

- Small businesses and sole-proprietors reporting income on Schedule C;
- Farmers reporting income on Schedule F;
- General partners in a partnership and actively participating members in an LLC treated as a partnership who have self-employed income; and
- Employees of an S Corporation who own 2 percent or more of the S corporation's stock.

## Beware of Email Scams

*The IRS does not solicit tax payments through email*

Emails said to be from IRS agencies are not new, however this year they seem to be more abundant. One of the newer scams sent to business owners are allegedly from the Electronic Federal Tax Payment System (EFTPS). The email is supposedly a notification letting you know that your tax payment has been rejected and needs to be re-submitted. Please be aware that the IRS does not solicit tax payments via email.

When you click the links in the scam emails, malware/viruses are loaded onto your computer. The malware sends information stored on your computer back to the scammer, putting you at risk.

What do you need to know to keep safe? The IRS will never request financial information, passwords, PINs or any other sensitive information from you via email. The IRS sends paper notices to taxpayers to discuss tax account information. Never provide your bank information to someone via email or click links that are suspicious!

If you ever receive one of these scam emails, do not reply. Do not open any attachments since they might contain malicious code that could infect your computer. Also, do not click any links provided in the email. These websites could also give your computer a virus or malware. Instead, forward the email to [phishing@irs.gov](mailto:phishing@irs.gov).



# Tax Tips

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## Business Trips and Conventions

*Mixing business with pleasure*

It's not uncommon for business meetings and conventions to be located in vacation destinations such as Las Vegas, Orlando or Honolulu. If the trip is 100 percent business, there's little question as to whether or not the cost of the trip is deductible. However, when it comes to a mix of work and play, it becomes harder to determine what is and is not deductible. It is very important to keep accurate records to substantiate what are business

expenses and what are personal expenses during your trip.

If your trip was primarily for business purposes and you only spent some personal time while away, you should be able to fully deduct transportation expenses. Hotel costs are only deductible for the business days; the same is true for meal expenses, with a 50 percent limitation. Hotel and meal costs are not deductible on

personal days. However, if your convention or meeting takes place on Thursday, Friday and Monday, the weekend days are deductible, even if you spend the time enjoying personal activities.

There are additional caveats when it comes to annual shareholder meetings, traveling on a cruise or to a resort, as well as traveling abroad. Consult with your tax professional to learn more.



## Do You Outsource Your Payroll?

*Be careful of scams*

Many businesses find it cost effective to outsource their payroll functions to a third-party payroll company. It is important to ensure that the company you are partnering with is reputable, because ultimately it's your responsibility to pay federal tax liabilities. If the third-party fails to make your federal tax deposits, the IRS may assess penalties and interest that you, the employer, will be responsible for paying.

When working with a third-party, choose a payroll service that uses the Electronic Federal Tax Payment System (EFTPS). This way, you can log onto the system and verify that the tax deposits were made on time. Also, be sure to list your address on the account, so that the IRS will send all correspondence directly to you, keeping you informed.

## Auto Expenses

*Do you use your car for business purposes?*

If you use an automobile for business, you may be able to receive a tax deduction to lower your income tax. Unless your car is used 100 percent for business, some of your expenses aren't deductible. The IRS is quick to question a vehicle used 100 percent for business. Do you, for example, keep the car at the company headquarters over night?

Deducting auto expenses requires diligent record-keeping. There are two ways to calculate your auto deductions - the standard mileage rate or actual expenses. These methods are available whether you own or lease your vehicle.

Taxpayers who wish to use the standard mileage rate in lieu of actual expenses for computing

deductible vehicle expenses must elect to do so in the first year. Switching to the standard mileage rate in a later year is not an option.

The actual expense method is as exactly as it sounds. Actual expenses, such as the cost of gas, oil, insurance, repairs, maintenance, tires, washing, licenses and depreciation or lease payments, are eligible. For the standard mileage rate method, instead of tracking the above expenses, you track the business mileage you accrue and use a standard rate. For January 1 through June 30, 2011, the standard rate is 51 cents per mile; for July 1 through December 31, 2011, the rate is 55.5 cents per mile.

You'll need to keep accurate records of the miles incurred for business purposes, dates of business use, destinations and the business purpose. Also, you'll need to note the odometer readings at the beginning and end of the year to determine the total miles for the year for all uses. The important aspect is to make sure you maintain accurate records. The IRS may disallow a deduction for mileage if you are unable to substantiate your deduction.

It's important to note that you cannot deduct commuting mileage (mileage from your home to your regular job). It is necessary to determine your tax home. If you are self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your client's or customer's place of business, as well as between jobs. As an employee, you can deduct mileage between jobs or to a temporary assignment. If you do not have a regular place of business, you can only deduct your transportation expenses to a temporary location outside your general area of employment.

## Day Care Providers Allowed a Per Diem

*New rates for 2011*

Taxpayers who provide day care services in their home may find it difficult to track the cost of meals they provide to the children. Therefore, the IRS allows day care providers to deduct a standard meal allowance, per child, in lieu of actual expenses. Following are the standard rates for 2011:

	Contiguous States	Alaska	Hawaii
Breakfast	\$1.19	\$1.89	\$1.38
Lunch and Dinner	\$2.22	\$3.60	\$2.60
Snack	\$0.66	\$1.07	\$0.77



## Small Business Health Care Tax Credit

*Do you qualify?*

The small business health care tax credit was included in the *Affordable Care Act* enacted last year and is designed to encourage small businesses to offer health insurance coverage to their employees for the first time or maintain coverage they already provide.

Small businesses that pay at least 50 percent of the premiums for employee health insurance coverage under a qualifying arrangement may be eligible for this tax credit. The credit is specifically targeted to help small businesses and tax-exempt organizations that primarily employ 25 or fewer fulltime equivalent employees with average incomes of \$50,000 or less. For 2010 through 2013, the credit may offset up to 35 percent of premiums paid by eligible small business employers and 25 percent of premiums paid by eligible employers that are tax-exempt organizations.

## IRS Discontinues Mailing of Certain Packages

*Technology eliminates the need for paper copies*

With the advent of e-filing, the IRS will no longer send business taxpayers certain tax packages through snail mail. The IRS made this decision due to the continued growth of e-filing as well as to help reduce costs. Some forms that will no longer be mailed include:

- Form 940, *Employer's Annual Federal Unemployment Tax Return*
- Form 941, *Employer's Quarterly Federal Tax Return*
- Form 944, *Employer's Annual Federal Tax Return*
- Form 2290, *Heavy Highway Vehicle Use Tax Return*
- Form 5500, *Annual Report/Report of Employee Benefit Plan*

## Quik Tips

1 The depreciation limit for a business-use automobile placed in service in 2011 for which bonus depreciation does not apply is \$3,260.

2 For 2011, taxpayers may expense up to \$500,000 of qualifying property acquired for use in a trade or business under §179.

3 Qualified property purchased after September 9, 2010, and before January 1, 2012, may be eligible for 100 percent bonus depreciation.

4 Each person engaged in a trade or business who, in the course of that trade or business, receives more than \$10,000 in cash in one transaction or in two or more related transactions, must file Form 8300.

5 *The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* has temporarily reduced the rate of social security tax withholding (for employees only) from 6.2% to 4.2% for wage payments made in 2011. The rate of social security tax withholding (for employees only) will tentatively be restored to 6.2% for wage payments made in 2012.

6 Congress has repealed the Form 1099 reporting requirements that were supposed to take effect in 2011 and reinstated the old reporting requirements. Business owners are required to issue Form 1099-MISC for payments of \$600 or more for rents, services, prizes and awards or other income payments, excluding payments to corporations.