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NEWSLETTER

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Business Expense Substantiation

A recent court case involving a CPA demonstrates the importance of maintaining detailed and current records to support your claimed business expenses (especially automobile and travel, home office and personal computers).

In *Kilpatrick*,…the taxpayer was denied certain business deductions under Sec. 162 as a self-employed CPA. The taxpayer started his own CPA business in 2009 after working with an Atlanta CPA firm for approximately 11 years. He was still working with his former firm until the end of 2010 after he started his own business. The taxpayer operated his new business from his home office. He was denied several deductions on his 2009 and 2010 Schedule C, *Profit or Loss from Business*, due to lack of substantiation.

For his automobile expenses, the taxpayer prepared and presented a calendar and printouts from MapQuest, both generated in December 2011. The Tax Court found that neither of these items constituted "adequate records" for such usage given that they had been generated two years after the time the business use of the automobile occurred. Additionally, no deduction was allowed for the furnishings (desk, chairs, and a painting) purchased for his home office, as the court found the items to be antiques that "will retain their value," and the taxpayer offered no proof otherwise.

He was also denied a deduction for a computer he purchased in 2009 as he failed to prove that he used it solely for business given that the computer was not "used exclusively at a regular business establishment" and was not owned or leased by the person operating the business. The taxpayer's continuing education cost was not deductible because the expenses were actually reimbursable by the CPA firm that he worked for as part of the firm's annual CPE requirements. Finally, the court denied a business deduction for his cellphone and home internet service because he failed to substantiate the amount of business and personal use.

This just goes to show you, no one is exempt from the need to maintain current expense documentation in order to preserve the related tax deduction.

Renting Out Your Vacation Home? Anticipate the Tax Impact

When buying a vacation home, the primary objective is usually to provide a place for many years of happy memories. But you might also view the property as an income-producing investment and choose to rent it out when you're not using it. Let's take a look at how the IRS generally treats income and expenses associated with a vacation home.

Mostly personal use

You can generally deduct interest up to $1 million in combined acquisition debt on your main residence and a second residence, such as a vacation home. In addition, you can also deduct property taxes on any number of residences.

If you (or your immediate family) use the home for more than 14 days and rent it out for less than 15 days during the year, the IRS will consider the property a "pure" personal residence, and you don't have to report the rental income. But any expenses associated with the rental — such as advertising or cleaning — aren't deductible.

More rental use

If you rent out the home for more than 14 days *and* you (or your immediate family) occupy the home for more than 14 days or 10% of the days you rent the property — whichever is greater — the IRS will still classify the home as a personal residence (in other words, vacation home), but you will have to report the rental income.

In this situation, you deduct the allocated personal portion of mortgage interest and property taxes as itemized deductions. On the other hand, the rental allocated portion of your expenses are deductible up to the amount of rental income. If your rental expenses are greater than your rental income, you may not deduct the loss against other income (you may, however, deduct excess mortgage interest and real estate taxes as an itemized deduction). The remaining excess rental expenses are carried forward and can be deducted in the future, if rental income exceeds rental expenses.

If you (or your immediate family) use the vacation home for 14 days or less, or under 10% of the days you rent out the property, whichever is greater, the IRS will classify the home as a rental property. In this instance, while the personal portion of mortgage interest isn't deductible, you may claim the personal portion of property taxes as an itemized deduction. You must report the rental income and may deduct all rental expenses, including depreciation, subject to the passive activity loss rules, which often limit the deduction of rental losses.

The regulations covering rental properties with personal use are very complex. This has been just a brief overview of some of the tax issues related to a vacation home. Should you have any questions in this area, please give us a call.

Asking the Right Questions about Long-Term Care Insurance

Like most people, as you age into your 40s and 50s, you may wonder what the future holds for your health and well-being. Will you be as sharp mentally and robust physically as you are right now? Could a serious medical condition arise in your future that might prevent you from performing routine daily tasks?

Unfortunately, many of us require long-term care (LTC) at some point in our lives. To hedge against this considerable financial risk, insurers offer LTC coverage.

Do you really need it?

LTC insurance policies help pay for the cost of long-term nursing care or assistance with activities of daily living (ADLs), such as eating or bathing. Many policies cover care provided in the home, an assisted living facility or a nursing home, though some restrict coverage to only licensed facilities. Without this coverage, you'd likely need to pay these bills out of pocket.

Medicare or health insurance generally covers such expenses only if they're temporary — that is, during a period over which you're continuing to improve, such as recovering from surgery or a stroke. Once you've plateaued and are unlikely to improve further, health insurance or Medicare coverage typically ends. That's when LTC insurance may take over.

Of course, you need to balance the value of LTC insurance benefits with the cost of premiums, which can run several thousand dollars annually (though a portion may be tax deductible if you itemize your medical expenses and they exceed your Adjusted Gross Income (AGI) floor). Depending on your income and net worth, as well as your personal and family health history, LTC insurance may or may not, be a worthwhile investment.

Should you buy now or later?

The younger you are when you buy a policy, the lower the premiums typically will be. And, the chance of being declined for a policy increases with age. Certain health conditions, such as Parkinson's disease, can also make it more difficult, or impossible, for you to obtain an LTC policy. If you can still get coverage, it likely will be much more expensive.

So, buying earlier in life seems to make sense. However, you must keep in mind that you'll potentially be paying premiums over a much longer period. Of course, you can often trim premium costs by choosing a longer elimination period or a shorter benefit period.

The elimination period is the amount of time between the start of the benefit trigger and the time that the policy begins paying benefits. This can range from 30 days to several months. Premium costs decrease as the elimination period increases.

Meanwhile, the benefit period is the period of time over which the policy pays for care. This can range from a year or two to an unlimited amount of time.

Boon or bust

Buying LTC insurance can be a boon or a bust. As an alternative some life insurance policies now provide for payment of LTC and hybrid LTC and life insurance policies are also available.

The bottom line, be sure you are fully informed of all your LTC options before making a decision and also evaluate your personal circumstances when making a decision to purchase or not purchase LTC coverage. If we can assist you, don't hesitate to give us a call.

Thoughts and Musings on Family Budgeting

Simplicity is the key to a successful family budget. But every budget needs to cover all necessary items. To find the right balance, your budget should address two distinct facets of your family members' lives: the near term and the long term.

In the near term, your budget should encompass the primary, day-to-day items that affect every family. First, housing, which is often the biggest expense in a family budget. And a budget shouldn't include only mortgage or rent payments, but also expenses such as utilities, furnishings, maintenance, insurance and supplies.

Naturally, there are other items related to daily life for which you need to account. These include food, vehicle and transportation expenses, clothing, child care, insurance out-of-pocket medical expenses and recreation. Of course, you also need to draw clear distinctions between fixed and discretionary spending.

Along with being a practical guide to family spending, a budget should address long-term goals. Naturally, some goals are further out than others. One of your longest-term objectives is probably to retire comfortably. So any budget should also incorporate retirement plan contributions and other ways to meet this goal.

A relatively less long-term goal might be funding your children's education. So, again, your budget should reflect this potential expense. And, as a long-term but "as soon as possible" objective, the budget needs to be structured to pay off debt and maintain a strong credit rating.

Only through careful planning and discussion can families build a budget that addresses both daily finances and long-term financial goals. Should you need assistance with your budgeting, give us a call.

TAX CALENDAR

JUNE & JULY 2017

JUNE

June 12
Employees who work for tips - if you received $20 or more in tips during May, report them to your employer. You can use Form 4070.

June 15
Individuals - make a payment of your 2017 estimated tax if you are not paying your income tax for the year through withholding (or will not pay in enough tax that way). You need to use Form 1040-ES. This is the second installment date for estimated tax in 2017.

Employers - for Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in May if the monthly rule applies.

Corporations - Deposit the second installment of estimated income tax for 2017. A worksheet, Form 1120-W, is available to help you estimate your tax for the year.

JULY 2017

July 10
Employees who work for tips - if you received $20 or more in tips during June, report them to your employer. You can use Form 4070.

July 17
Employers - for Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in June if the monthly rule applies.

July 31
Social Security, Medicare, and withheld income tax - file Form 941 for the second quarter of 2017. Deposit any undeposited tax. (If your tax liability is less than $2,500, you can pay it in full with a timely filed return.) If you deposited the tax for the quarter in full and on time, you have until August 10 to file the return.

Federal unemployment tax - deposit the tax owed through June if more than $500.

Employers must file Form RT-6 with the Florida Department of Revenue, for the second quarter of 2017. Deposit any undeposited tax.

All employers - if you maintain an employee benefit plan, such as a pension, profit-sharing, or stock bonus plan, file Form 5500 or 5500-EZ for calendar year 2016. If you use a fiscal year as your plan year, file the form by the last day of the seventh month after the plan year ends.

Other helpful on-line services

www.IRS.gov
www.MyFlorida.com
&
www.Volusia.org