

# Tax Tips

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## Employer-Provided Health Coverage *What are your W-2 reporting requirements?*

The *Affordable Care Act* requires employers to report the cost of coverage under an employer-sponsored group health plan. To give employers more time to update their payroll systems, this requirement is optional for all employers in 2011. In 2012, the government will require any business filing 250 or more W-2 forms to report the cost of their health coverage. Health care reporting will be optional to small businesses that file less than 250 W-2 forms for at least 2012, and will continue to be optional until further guidance is released.

The 2011 Form W-2 is available for viewing and is the W-2 that most employees will receive in early 2012. Employers may use box 12, code DD, to report the cost of coverage under an employer-sponsored group health plan.

This health coverage reporting requirement is for informational purposes only. The purpose of this reporting is to show employees the value of their health care benefits, so they can be more informed consumers. The amount reported does not affect tax liability, as the value of the employer contribution to health coverage continues to be excludable from an employee's income and is not taxable.

It's important to note that this reporting requirement relates only to employer-sponsored group health plans. The reporting requirement does not include:

- Coverage only for accident or disability income insurance;
- Coverage issued as a supplement to liability insurance;
- Liability insurance, including general liability insurance and automobile liability insurance;
- Workers' compensation or similar insurance;

- Automobile medical payment insurance;
- Credit-only insurance; and
- Other similar insurance coverage, specified in the regulations, under which benefits for medical care are secondary or incidental to other insurance benefits.



## Purchasing a New Business Asset?

*You may be able to expense it under §179*

Are you thinking about making a big purchase for your business? You may be able to expense up to \$500,000 of qualifying property acquired for use in a trade of business for 2011. The deduction phaseout begins at \$2,000,000 on purchases of qualifying property. Taxpayers who have "qualified disaster assistance property" may expense up to \$600,000; their deduction phaseout begins at \$2,600,000. The SUV limit remains at \$25,000.

Within the \$500,000 limit of §179 deduction, taxpayers may expense up to \$250,000 of qualified real property, defined as qualified restaurant leasehold improvement property, qualified restaurant property and qualified retail improvement property.

## Do You Work from Home?

*If so, consider a home-office deduction*

Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly as your principal place of business, as a place you meet your clients, or in connection with your business, where the business portion of your home is a separate structure not attached to your home.



For the most part, the amount you can deduct depends on the percentage of your home used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses.

It's important to note that there are special rules for qualified daycare providers and for persons storing business inventory or product samples in their home.

## Employee or Independent Contractor?

*This classification determines if payroll taxes are required*

For some business owners, determining whether a worker is an employee or an independent contractor can be tricky. Generally, you must withhold income taxes, withhold and pay social security and Medicare taxes and pay unemployment tax on wages paid to an employee. However, you don't generally have to withhold or pay any taxes on payments made to independent contractors.

There is a misconception that you may be able to choose which classification works best for your company.

In reality, however, the facts and circumstances impose the worker

status. In determining whether the person providing a service is an employee or an independent contractor, you must consider all information that provides evidence of

the degree of control and independence. You'll need to answer these four questions:

1. Does the company control or have the right to control what the worker does and how the worker does his or her job?
2. Are the business aspects of the worker's job controlled by the payer? Examples include how a worker is paid, whether expenses are reimbursed and who provides tools/supplies.
3. Are there written contracts or employee-type benefits like a pension plan, insurance, vacation pay?
4. Will the relationship continue and is the work performed a key aspect of the business?

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent contractor. No set number of factors makes the worker an employee or an independent contractor and no single factor stands alone in making this determination. The concept is to look at the entire business relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

If you classify an employee as an independent contractor and you have no reasonable basis for doing so, you may be held liable for employment taxes for that worker. File a Form SS-8 with the IRS if the factors for determining worker status remain unclear.



## Self-Employed Consultants

*Do you sell goods door-to-door?*

Picking up a second job to supplement household income in a tough economy is becoming more common. Many Americans are choosing to become consultants who visit homes to sell make-up, jewelry, candles, kitchen utensils and food products. Some may not realize the tax implications of becoming a sole proprietor and what they need to do to file taxes.

Your first step when starting a business is to open a separate business checking account. It will be easier to track your deductible expenses if they are not commingled with your personal expenses. If you incurred expenses prior to opening your business, keep them separate from your other expenses. Special tax treatment applies to start-up expenses.

It's also important to keep track of your mileage, because you might be able to deduct it on your tax return. 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. There are two ways to calculate your auto deductions: the standard mileage rate or actual expenses. The standard mileage rate is the easier method to use because you simply take your total business mileage and multiply it by the current rate (\$.51 for 2011). The actual expense method requires you to record the actual expenses, such as the cost of gas, oil, insurance, repairs, maintenance, tires, washing, licenses and depreciation. If you use your car for personal and business purposes, you'll have to divide the expenses between the personal and business portion, so keeping detailed records is a must. The business miles for the year divided by the total miles for the year determine the business percentage of your actual expenses.

## Quik Tips

1

The standard mileage rate for business travel in 2011 is 51 cents per mile.

2

The maximum amount of wages subject to social security tax is \$106,800 in 2011. There is no limit on wages subject to Medicare tax.

3

Maximum employee elective deferrals to 401(k) or 403(b) plans are \$16,500 for 2011.

4

Up to \$230 per month for employer-provided transit and carpooling benefits can be provided as a tax-free fringe benefit to employees in 2011. Also, \$230 per month for qualified parking can be provided by the employer as a tax-free fringe benefit to employees in 2011.

5

The maximum amount that can be contributed to your employees' health savings accounts (HSAs) in 2011 is \$3,050 for employees with self-only coverage and \$6,150 for employees with family coverage.

## Bartering Income

*How can it impact your taxes?*

Many small business owners use bartering as a way to save a little money. But many do not realize the tax consequences associated with bartering. When bartering occurs, there is usually no money exchanged, just goods and/or services.

In general, you are required to issue a Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*, to the party you traded with. This form indicates the fair market value of the item you traded.

The fair market value of the item you receive is income to you and is taxable in the year the service is received. Your bartering activities also may result in ordinary business income, capital gains or capital losses, or you may have a non-deductible personal loss. In addition, the fair market value of the item you

traded, may also be deductible to the extent the barter received is a deductible expenditure. Bartering income may result in liabilities for income tax, self-employment tax, employment tax or excise tax.

## Form 1099 Reporting Requirements Repealed

*Small businesses, landlords spared from increased burden*

Part of the *Patient Protection and Affordable Care Act* (PPACA) would have required business owners who pay a non-employee taxpayer more than \$600 in any tax year to furnish that taxpayer with a Form 1099 beginning in 2012. These payments would have included, interest, rents, royalties and amounts paid for goods or services.

This past April, President Obama signed the *Comprehensive 1099 Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011* (HR 4), which repealed

the section of the PPACA that enacted these reporting requirements. In addition, HR 4 also repealed the Form 1099 reporting requirements imposed on landlords, which was to take effect in 2011 under the *Small Business Jobs Act of 2010*. This provision required persons who received income from rental property to report payments of \$600 or more to service providers on Form 1099-MISC.

The repeal of these expanded reporting requirements reinstates the old rules requiring business owners 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.

