Small Business
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TAX STRATEGIES
Grow your profits—pay less tax
Business Management Daily

TaxNews

Substance over form. Have you received a W-2 or 1099 with an error? Check forms carefully to ensure accuracy. If you discover a mistake, contact the payer promptly to obtain a revised form. Also, a payer may issue a corrected form on its own. Don't ignore the change on the 1040 you file with the IRS. The IRS computers match up W-2s and 1099s and could produce an unexpected tax bill.

Share and share alike. If you use an online platform to provide car rides, rent a spare room or furnish other goods or services, you're involved in the so-called "sharing economy." The IRS has posted valuable information about tax issues for these folks, as well as guidance for tax practitioners representing them, on its website (**www.irs.gov**).

Review plan beneficiaries. Review the beneficiaries (primary and contingent) for your qualified retirement plans and IRAs. Regularly update any designations to reflect major changes in your life or significant events (e.g., birth, death, marriage or divorce). *Note:* These designations supersede a will.

Bump in benefits. Social Security benefits for retirees are increasing slightly next year. For 2018, the estimated average monthly benefit for all retired workers will go from $1,377 to $1,404, and from $2,687 to $2,788 for those who've reached NRA.

INSIDE

Pay ZERO tax on capital gains

That's not a misprint. You can qualify for a 0% tax rate on some or all of your long-term capital gains realized in 2017. This unique tax break, extended by the American Taxpayer Relief Act (ATRA), isn't necessarily off-limits to taxpayers who are doing OK financially.

Strategy: Figure out how much capital gain you might fit under the threshold. The 0% rate applies to taxpayers who end up in the 10% or 15% regular income tax brackets.

For instance, you may qualify for preferential tax treatment if your business incurs a loss or you defer a substantial amount of income to future years. Alternatively, you might shift some of your capital gain assets to your children or grandchildren who are eligible for the 0% tax rate.

Here's the whole story: As part of the "Bush tax cuts," the maximum tax rate on net long-term gain was lowered from 20% to 15%, beginning in 2003. For taxpayers in the two lowest tax brackets, the rate was reduced to 5%. Subsequent extensions and modifications cut the rate to a rock-bottom 0% through 2012.

ATRA permanently extended the 0% tax rate for long-term capital gains. The 15% rate was also extended, but single filers with taxable income above $416,700 and joint filers above $470,700 face a maximum 20% rate for 2017.

If your income drops below the cutoff point, you can benefit from the 0% rate. For 2017, the threshold is $37,950 for single filers and $75,900 for joint filers *(see chart, page 2)*.

Example: You're self-employed, a joint filer and normally in the 25% bracket. But you expect your self-

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Grab 5 quick tax perks: Put spouse on payroll

Does your business need trustworthy and reliable employees? You may not have to look any farther than across the dinner table.

Strategy: Hire your spouse to work as an official employee. Why put your spouse on the payroll? Because you can gain five tax benefits:

1. Build up tax-favored funds for retirement

If you meet the tax-law requirements, your company can deduct contributions made to a qualified retirement plan on your spouse's behalf. The annual limits are quite generous. If your company has a defined contribution plan, you can deduct contributions up to 25% of compensation or $54,000, whichever is less.

With a 401(k) plan, another dollar limit applies: Your spouse can defer up to $18,000 to the plan in 2017 (plus an extra $6,000 if he or she is age 50 or older). Your company can match those contributions wholly or partially up to tax-law limits.

2. Shift taxable income away from the company

If you operate a C corporation, any compensation you pay to your spouse would have to stay with the company. Assuming your corporation is in a higher tax bracket than your personal tax bracket, you'll save tax overall if your spouse draws a salary. But don't look for any income-shifting tax benefit—possibly a drawback—if your company falls in a

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Pay ZERO tax *(Cont. from page 1)*

employment income in 2017 to be only $50,000. Plus, you'll be able to cut your taxable income to $20,000 via itemized deductions such as mortgage interest, property taxes and charitable gifts.

This offers plenty of tax room to maneuver on sales of securities or other assets. For instance, assume you sell appreciated stock you've owned for 10 years at a $50,000 gain. Because your total taxable income of $70,000 ($20,000 + $50,000) is below the $75,900 cutoff, the entire long-term gain is effectively tax free!

Note that it doesn't have to be an all-or-nothing proposition. For instance, say that your taxable income before counting capital gains is $55,900 instead of $20,000. In that case, $20,000 of the gain from the sale of stock ($75,900 – $55,900) qualifies for the 0% rate. The remaining $30,000 of gain is taxed at the 15% rate, for a total tax of $4,500.

If you have no shot at the 0% rate this year, shift appreciated capital gain assets like stocks and mutual fund shares to low-taxed family members. The transfers can be sheltered from gift tax by the annual gift tax exclusion of up to $14,000 per recipient ($28,000 for joint gifts made by a married couple). Any excess is covered by your annual lifetime gift-tax exemption ($5.49 million in 2017).

However, under the "kiddie tax," investment income above $2,100 received in 2017 by dependent children up to age 24 can be taxed at the parents' top rate. Also, shifting too much income might affect college aid eligibility.

Tip: The 0% capital gains rate only applies to assets held longer than one year. Short-term gains are taxed at ordinary income rates.

Snapshot of cutoff levels

Long-Term Capital Gains

Single Filers	Joint Filers	Tax Rate
$0 - $37,950	$0 - $75,900	0%
$37,951 - $191,650	$75,901 - $233,350	15%
$191,650 - $418,400	$233,351 - $470,700	15%
$418,401+	$470,701+	20%

Grab 5 tax perks *(Cont. from page 1)*

lower tax bracket than your personal bracket.

Note: S corporation owners and sole proprietors don't pay corporate income tax. You report business income on your personal return whether or not you pay your spouse a salary. So this could be a wash.

3. Get more tax mileage from business trips

Generally, you can't deduct the travel expenses attributable to your spouse if he or she accompanies you on a business excursion. However, if your spouse is a bona fide company employee and goes for a valid business reason, you may deduct his or her travel costs, including air fare, lodging and 50% of the meal expenses. The benefit also is tax free to your spouse.

4. Cure health insurance coverage ills

If you're already paying more to cover your spouse under your company health insurance plan, hiring him or her shifts the expense to your company. Typically, your company can deduct your spouse's full health insurance cost.

Even self-employeds can write off 100% of the cost under a so-called Section 105 medical-reimbursement plan.

5. Join the employer-paid life insurance group

Your spouse is entitled to the same group-term life insurance coverage as your other employees.

Key point: The first $50,000 of employer-paid, group-term coverage is tax free to an employee.

However, one catch for S corp owners: Generally, you can't deduct fringe benefits, such as group-term life insurance, for any employee who owns 2% or more of the company.

By extension, that rule also applies to an employee-spouse.

Stockpile Section 529 funds for the future

The amount you transfer to a Section 529 plan on behalf of a beneficiary qualifies for the annual gift-tax exclusion. Under the exclusion, you can give away up to $14,000 for 2017—or $28,000 for joint gifts made by a married couple—to an account for the beneficiary without paying any gift tax.

Strategy: Front-load your contributions to a Section 529 plan. The tax law allows you to give the equivalent of five years' worth of contributions up front with no gift-tax consequences. The gift is treated as if it were spread out over the five-year period.

For instance, you and your spouse might together contribute the maximum $140,000 (5 X $28,000) on behalf of a grandchild this year without paying any gift tax. If you have five grandchildren entering college soon, together you can contribute $140,000 to their Section 529 plans, completely free of any gift-tax consequences.

Tip: Any excess above the annual gift-tax exclusion may be sheltered by the lifetime gift-tax exemption.

Get ready to launch a solo 401(k) retirement plan

Most contributions and other limits for retirement plans didn't budge much for 2017. But some small business owners can take matters into their own hands.

Strategy: Set up a "solo 401(k) plan." If you qualify, you can effectively benefit from both "employee" and "employer" contributions to your account. In many cases, this dual tax winner can't be beat because it often allows you to sock away more money than any other type of retirement plan.

Here's the whole story: With the standard defined contribution plan used by small business owners—such as a Simplified Employee Pension (SEP) or garden-variety profit sharing plan—the employer's deductible contribution in 2017 is capped at the lesser of 25% of compensation or $54,000.

The maximum compensation that may be taken into account for these purposes is $270,000. But that's as far as it goes.

In contrast, an employee participating in a traditional 401(k) plan can make an elective deferral contribution to the plan within the annual limits and the employer may match part of the contribution, usually up to a single-digit percentage of your salary.

A solo 401(k) offers even more. You may defer up to $18,000 of compensation to your account, plus an extra catch-up contribution of $6,000 is allowed if you're age 50 or older—the same as with elective deferrals to a traditional 401(k). Of course, the limits on deductible employer contributions still apply, but here's the kicker: Elective deferrals to a solo 401(k) don't count toward the 25% cap. So you can combine an employer contribution with an employee deferral for greater savings.

Example: Big tax winner for small business owner

Let's say you're the sole employee of your company, you're under age 50 and you receive an annual wage of $125,000. The maximum deductible amount you may contribute to a SEP is $31,250 (the lesser of 25% of compensation or $54,000). If you set up a solo 401(k) plan instead, you can defer $18,000 to the account in addition to keeping the maximum $31,250 employer contribution. That gives you a total contribution of $49,250 (below the $54,000 limit). And, since you're the only employee of the company, you don't have to worry about making contributions for anybody else.

The contributions to a solo 401(k) grow tax-deferred until you're ready to make withdrawals. For simplicity, suppose you contribute $49,250 to your account each year for the next 20 years until you retire. If you earn 8% a year, you will have accumulated a whopping nest egg worth $2,464,079!

Conversely, if you contribute $31,250 to a SEP for 20 years instead and invest it at the same 8% rate, you will accumulate $1,544,466 before retirement—or $939,613 less.

If the business isn't incorporated, the 25%-of-compensation cap on employer contributions is reduced to 20% because of the way contributions are calculated for self-employed individuals. But that still leaves you with plenty of room to maneuver.

For instance, if your net self-employment income is $125,000, you can stash away up to $43,000 ($18,000 deferral and $25,000 employer contribution) in the account this year. And remember that contributions can be boosted once you reach age 50.

Note that a solo 401(k) may offer other advantages. For instance, the plan can be set up to allow loans and hardship withdrawals. Also, you might roll over funds tax free from another qualified plan if you previously worked somewhere else.

Tip: Contributions are discretionary. Therefore, you can cut back on your annual contribution—or skip it entirely—if your business is having a bad year.

Going solo: Not a 'free ride'

Despite the obvious benefits, there are a couple of drawbacks to solo 401(k) plans.

1. If your business has any other employees, they may have to be covered under the plan.

2. You have to deal with the hassle and cost of running the plan.

Good news: After the tax rules were changed to favor solo 401(k) plans, more "big players" entered the arena. Now that financial outfits like Fidelity and Smith Barney offer solo 401(k)s, administrative costs have plummeted. Typically, a small business owner might be charged a one-time setup fee of $100 and a small annual administrative fee ranging from $50 to $250.

Create tax breaks: Buy parents' home, rent it back to them

Say your aging parents live in a home that has appreciated in value, but they're no longer reaping any of the homeownership tax breaks during their retirement years. Sound familiar?

Good news: With one stroke of the pen, both you and your parents can win: They'd gain instant access to their home equity (without moving) and you'd pick up some generous new tax deductions.

How? Buy your parents' house, and then rent it back to them—at the going rate.

Reasons for the sale/leaseback. Under the current homeownership setup, your combined family unit is overpaying the IRS.

Your parents' mortgage is either paid off or the payments represent mostly principal at this point. Even if they still take interest deductions, your parents' tax bracket might be low in retirement, so those deductions don't provide much tax savings.

Here are two good reasons for your parents to opt into this plan:

1. It puts cash in their pockets without them dipping into a home equity loan.

2. It allows them to put their money into safer investments than the real estate market.

Transferring the house. To avoid gift-tax complications, pay a fair price for the home. Support the buying price with a qualified and independent appraisal. Then, both sides should enter into a lease at a fair rental value.

One benefit: Courts have said that landlords can reduce their fair-market rent by 20% when renting to relatives. That lower rent reflects the savings in maintenance and management costs. (*L.A. Bindseil,* TC Memo 1983-411)

Don't set the rent too low; the IRS might say the rental home is for your personal use. Therefore, your deductions might be limited to mortgage interest and property tax, the same as if you owned a vacation home.

Taking deductions. Once you own your parents' house, you're entitled to reap the tax benefits of owning rental property.

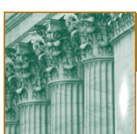
That includes taking write-offs for operating expenses, such as utilities, maintenance, insurance, repairs and supplies.

You also can claim depreciation deductions for the home, but you can't depreciate the cost of the property apportioned to land.

So obtain an appraisal allocating the price paid between the depreciable structure and the nondepreciable land. You can use these deductions to offset the rental income received from your parents. You can take any suspended losses when you sell the house.

Bonus benefit: Once you own the house, you may be able to write off occasional travel expenses you incur when visiting the house (your rental investment).

Endgame: Eventually, your parents won't be able to live in the house. Then, you can sell it, rent it to another tenant or move in. If you move in and make it your principal residence for at least two years, you can sell it and shelter another $250,000 or $500,000 worth of capital gains: a true tax bonanza!



Lessons from the Tax Court: Is tax professional guilty of fraud?

To add insult to injury, wayward taxpayers can also be assessed fraud penalties in addition to forfeiting unsubstantiated deductions. However, for fraud penalties to stick, the IRS must provide "clear and convincing evidence" that the taxpayer underpaid tax, due at least partially to fraud.

Having some expertise in tax return preparation isn't enough, by itself, to warrant fraud penalties when the IRS disallows deductions.

New case: The taxpayer operated a tax-related business for over 30 years, preparing tax returns for the past 20 years. When he was starting out, he attended college courses on tax concepts and seminars on tax preparation. Furthermore, the taxpayer initially had a second job helping a CPA prepare tax returns, plus another job as an accountant for two other businesses.

In the course of his business activities, the taxpayer prepared hundreds of income tax returns between 2006 and 2008. He also prepared the joint tax returns filed for himself and his spouse.

The taxpayer claimed numerous business expense deductions for the tax years in question. Upon audit, the IRS determined that the taxpayer had failed to report $4,905 and $5,552 in business income in 2006 and 2008, respectively. It assessed both fraud and accuracy-related penalties.

Tax outcome: The Tax Court found that the taxpayer's overall education and experience didn't justify the fraud penalty. It said that the IRS didn't offer convincing proof of his sophistication and expertise. In addition, the court determined that the taxpayer was misguided in his understanding of several areas of tax law.

The Court concluded that the taxpayer failed to maintain adequate business records and documentation to support claims for business deductions. But the failure wasn't part of a concerted plan to conceal, mislead or otherwise prevent the collection of tax. Therefore, it disallowed the deductions but negated the fraud penalty. (*Ericson,* TC Memo 2016-107, 6/1/16)

Skirt NII surtax on family business interests

If you sell your business, you might owe a hefty income tax on the appreciated interest. Saving grace: At least you may be able to avoid the 3.8% Medicare surtax on net investment income (NII), depending on the exact circumstances. But what about your kids and other family members who are shareholders? They could get walloped by the surtax.

Strategy: Hire family members who are co-owners (if they don't already work for the company). Keep them on the payroll until you sell the business.

As a result, when the deal finally closes, the relatives with business interests should be able to squeeze through the same tax loophole as you, the business owner.

Here's the whole story: The 3.8% surtax applies to the lesser of NII or the excess above modified adjusted gross income (MAGI) of $200,000 for single filers and $250,000 for joint filers. For this purpose, NII interest, dividends, royalties, rents, gains from dispositions of property and income from passive activities, but not tax-free interest or distributions from qualified retirement plans and IRAs.

Another exclusion from the definition of NII is critical to many family-owned businesses. It specifically doesn't include gains from the sale of property owned in an active trade or business that is not a C corporation.

That lets many owners who operate their businesses as sole proprietorships, LLCs, partnerships and S corporations off the hook. However, owners of these businesses who sit on the sideline will have to face the surtax if the business is sold.

Example: Your small business is operated as an S corp and is currently valued at $12 million with an adjusted basis of $2 million. You and your spouse own 80% of the business and the remaining 20% is split evenly between your two adult children, a son and a daughter. So each child currently owns shares worth $1.2 million with a basis of $200,000.

Your son already works for the company, but your daughter doesn't. Assuming you sell the business for $12 million, each child will recognize a taxable gain of $1 million ($1.2 million–$200,000).

According to the regulations, the gain from the sale won't count as NII for your son because he is a material participant in the business. But your daughter will probably owe the 3.8% surtax on at least $1 million of NII (not even counting investment income from other sources). That comes to $38,000 on top of the regular income tax!

This harsh result can easily be avoided if you hire your daughter to work for the business. Your daughter will owe taxes on wages, but will be eligible for tax-free fringe benefits.

Tip: The job must be legitimate. The surtax can't be avoided simply by putting a child on the books.

Business

Go back to school on business education

Are you planning to take a refresher course at a local school?

Strategy: Study the tax rules and then determine how much you will be able to write off on your return.

Generally, you can deduct education costs as a business expense if you pass one of two tests:

1. The education is required by your employer or by law to keep your current job.

2. The education maintains or improves skills needed in your present work.

You can't deduct any of your expenses—even if you qualify under either test—if the education is needed to meet the minimum educational requirements of your current job, profession or business, or it qualifies you for a new job, profession or business. However, if you're taking courses just to brush up on new developments in your field, you should be OK.

What can you deduct? Expenses like tuition, books, laboratory fees, equipment and transportation between work and school. If you go to class directly after work, the cost is deductible. But you can't deduct the travel costs if you stop at home for a bite to eat. And the IRS will not allow you to deduct the cost of an undergraduate degree, because that is presumed to automatically qualify you for a new profession or business.

Tip: Note that unreimbursed business education expenses are deductible as miscellaneous expenses subject to the usual floor of 2% of AGI.

Step forward to receive charitable deductions for good deeds

You can't deduct the cost of the time and effort you spend on behalf of charity. But that doesn't mean your good deeds will go for tax naught.

This tax break is available to regular volunteers and others who help out sporadically.

Strategy: Track your out-of-pocket costs. Even though you can't deduct the value of your endeavors, you can write off actual expenses associated with charitable activities.

Furthermore, you don't have to be a board member or one of the charity's biggest donators. This tax break is available to regular volunteers and others who help out sporadically.

What sort of expenses are we talking about? Here's a partial list.

- **Transportation:** If you use your car for charity, deduct the related costs attributable to gas and oil, repairs, insurance, etc. *Alternative:* You might opt for the flat-rate deduction of 14 cents per mile (plus related parking fees and tolls). Similarly, you can deduct plane, train or bus costs for traveling to charitable events.
- **Telephone charges:** You may deduct the full cost of long-distance telephone calls, faxes and cellphone charges made on behalf of a charity. If you install a landline in your home that you use solely for charitable purposes, the entire cost is deductible.
- **Home entertainment:** If you host a fundraiser or board meeting, you can deduct the entire cost of the catering expenses as a charitable deduction. *Note:* The 50% limit on entertainment and meal expenses doesn't apply here.
- **Fundraising dinners:** Normally, you can deduct the portion of the cost that exceeds the fair market value of a fundraising dinner. For example, let's say you and your spouse attend a dinner that costs $100 a head. If the meal is valued at $35 a head, you can deduct $130 ($200 cost – $70 value). *Note:* For amounts exceeding $75, obtain written documentation from the charitable organization.
- **Uniforms:** A deduction is allowed for the cost of uniforms used while performing charitable services as long as the clothing isn't suitable for everyday wear. *Classic example:* You can write off the cost of Boy Scout or Girl Scout uniforms.
- **Foreign exchange students:** If you host a foreign exchange student in your home, you can deduct up to $50 per month for each month the child attends high school. To qualify, the student must live in your home under a written agreement with a qualified charity. Also, the exchange student can't be a relative.
- **Charitable conventions:** You may be able to deduct the cost of attending a convention on behalf of a charity—such as meals and lodging—if you're an official delegate to the convention. But the convention must be the primary purpose of the trip. The deductible amount includes meals and lodging while you attend the convention. *Caveat:* The cost of any side trips to tourist attractions isn't deductible.

Tip: Individually, these deductions may be small, but collectively they add up. Keep the records you'll need at tax return time.

STAFF

Publisher: Phillip Ash, CPA

Editor: Ken Berry, Esq., SBTSeditor@BusinessManagementDaily.com

Contributing Advisor: Bill Bischoff, CPA

Editorial Director: Patrick DiDomenico, (703) 905-4583, pdidomenico@BusinessManagementDaily.com

Senior Editor: Michelle V. Peña

Production Editor: Linda Lord

Associate Publishers: A. Paul Ash, CPA, Adam Goldstein

Customer Service: customer@BusinessManagementDaily.com, (800) 543-2055

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Thinking about a real estate swap? Use a go-between

Instead of making an outright sale of commercial or investment property, the tax law enables you to "swap" it for like-kind property without paying any current tax. However, things aren't usually so cut-and-dried in the real world. For one thing, it's unlikely the potential buyer of your property will own any real estate you desire.

Strategy: Use a "qualified intermediary" to facilitate deals. The intermediary can be inserted in the middle of a multiple-party exchange. In the end, you wind up with a property you want.

Like-kind exchanges involving multiple parties are often called "Starker exchanges" after the landmark case approving their use. *(Starker, 602 F2d 1341, 9th Cir., 1979)* As long as you meet the tax law rules and deadlines for a Starker exchange, you can swap property tax free.

Here's the whole story: The tax law definition of like-kind property is a relatively liberal one. It refers to the nature of the property, not its quality or grade. For example, you can swap a warehouse tax free for an apartment building or even raw land. You owe tax only to the extent you receive any "boot" as part of the deal (e.g., cash or reduced mortgage liability or property that is not like-kind).

But, there are two key time restrictions:

1. The property that you will receive in the exchange must be identified within 45 days of transferring the property.

2. The property must be received within the earlier of 180 days after the transfer or the due date of the tax return for that year (including any extensions of the due date).

Fortunately, a qualified intermediary can help you overcome these timing hurdles.

Example: You use a qualified intermediary for a Starker exchange involving four parties. Technically, you (the first party) sell the property you're relinquishing to a cash buyer (the second party). But the cash buyer pays the intermediary (the third party) instead of you. The intermediary holds the proceeds until you identify a suitable replacement property.

At that point, the intermediary uses the sales proceeds to buy the replacement property from its owner (the fourth party). Finally, the intermediary transfers this property to you to complete the like-kind exchange.

The tax law definition of like-kind property is a relatively liberal one. It refers to the nature of the property, not its quality or grade.

For tax purposes, you're considered to have swapped properties tax free with the intermediary. That's because no cash actually exchanges hands (except to the extent cash boot is involved). The intermediary handles the funds on your behalf.

To qualify for tax free treatment, you and the qualified intermediary must sign a "Qualified Exchange Accommodation Agreement." The agreement should state that the intermediary is holding the property to facilitate a tax-free exchange. The intermediary must also agree to meet all the technical reporting requirements spelled out by the IRS.

Tip: Qualified intermediaries generally charge fees based on the value of the properties.

IRS carves out safe-harbor rule

The IRS has approved a "safe-harbor rule" for participants in a Starker exchange when a qualified intermediary defaults due to bankruptcy. *(IRS Revenue Procedure 2010-14)*

The upshot: If you satisfy the requirements, you won't be taxed on any of the proceeds until the intermediary emerges from bankruptcy. The safe-harbor rule applies if you:

- Transferred relinquished property to the intermediary in accordance with the regs
- Properly identified replacement property within the identification period (unless the default occurs during that period)
- Failed to complete the like-kind exchange solely because of the default involving a bankruptcy or a receivership
- Did not have actual or constructive receipt of proceeds from any property of the intermediary prior to the bankruptcy or receivership.

Tip: Any gain will then be realized under a gross profit ratio method. See your tax professional.

Mail Call

Meal and entertainment expenses

Q I received an invitation for a free meal at an investment seminar. Is this taxable, if I go? *B.R., Tinton Falls, N.J.*

A No. The event is governed by the tax rules for meal and entertainment expenses. Therefore, as the recipient of the meal, you don't owe any income tax on this benefit. But it's not completely "free": Undoubtedly, you'll have to listen to a sales pitch from a financial planner, plus you may have to endure follow-up contacts.

Tip: If you pay to attend an investment seminar or convention, you can't deduct the cost, either.

Home office deductions: Stand on firm ground

Q In a previous issue, you stated that you could deduct home office expenses based on the number of rooms in the home. Do you have any authority for this statement? *J.R.M., Largo, Fla.*

A Yes. Typically, home office deductions are based on the percentage of business use (square footage of the business portion of the home divided by the total square footage). But the IRS says in Publication 587, *Business Use of Your Home*, a taxpayer *can* base the percentage on the number of rooms if the rooms are about the same size. Say you use one room of an eight-room house for business. The room is 300 square feet out of a total of 3,000 square feet. In this case, the "rooms method" (12.5%) yields a bigger deduction than the square-footage method (10%).

Tip: Access Publication 587 at **www.irs.gov/forms-instructions.pdf**.

Tap unique tax break on company stock

Q When my friend retired several years ago, she didn't roll over her company stock into an IRA. (She had bought some of the stock and her employer gave her some.) If she sells the stock, will it be taxed as capital gain? *F.G., King of Prussia, Pa.*

A Partially. Assuming your friend holds the company stock in a qualified retirement plan, she's eligible for a unique tax break: If a retirement plan distribution is paid in company stock, the retiree is taxed at ordinary income rates on the stock's original cost. Any appreciation is untaxed. When she sells it, the difference between the sales price and the original cost is taxed as capital gain.

Deduct education costs for child/employee

Q My kids work for my business and also attend college. I found a course on family business at a different college that I'd like them to take. If I pay for the course, can I deduct the cost? *A.C., Oxnard, Calif.*

A Based on this information, the costs would be deductible if they clearly improve the skills necessary for your children's current jobs or if you simply treat the company-paid costs as additional compensation paid to your kids. If you personally pay the tuition as a parent, you can't take the deduction. That's why it's best to have the company pay the course expenses.

Dividing the spoils of a spousal IRA

Q I retired in 2015, but my wife is still working. I'm now 68, and my wife is 62. We both have IRAs and we file a joint tax return. Can we both still contribute to our IRAs this year? *A.K., Margate, N.J.*

A Yes. Since you qualify for a "spousal IRA" and you're both over age 50, you have until April 17, 2018, to jointly contribute up to $13,000 to your IRAs for 2017 (assuming either of you earned at least that much in compensation during the year). That maximum $13,000 contribution can be divided among your IRAs in any manner in which you see fit as long as no more than $6,500 is allocated to either account. You have until your tax return due date to make the annual contribution.

Tip: To delay mandatory distributions from the IRA, allocate more of the contribution to the younger spouse.

Submit Mail Call questions to:
SBTSeditor@BusinessManagementDaily.com.

The Tax Ticker

Beware of phony email from 'IRS.' We've said it before; we'll say it again: Never send personal financial data in response to unsolicited email. The IRS says scam artists are sending emails to random people, telling them they're due a refund or under investigation. The message directs people to a fake IRS website that asks for personal data. In reality, the IRS won't contact you via email.

Need an old tax return fast? Contact your tax advisor. A special IRS service lets tax practitioners receive transcripts of clients' tax returns electronically in minutes. Taxpayers can still receive a free paper transcript of their returns within seven to 10 days by calling the IRS at (800) 829-1040.

Differentiate between gifts and compensation. If you give a favorite employee a big check at Christmas, you might consider it a gift, but the IRS will likely consider it income. That could be true even if the employee and owner are family members. For example, in one case, the IRS said payments to an owner's daughter (who was also an employee) were strictly related to past services, not gifts. Consult with your tax professional if you face a similar dilemma.

SBTS-SIS-057