

Tax Tips

For Small Business

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Flip This House

What you need to know before you sell

Buying homes, fixing them up, and then selling them is commonly referred to in the industry as “flipping.” While this may sound like a hobby or an investment, the IRS may consider it to be a home remodeling and selling business.

Before you assume this activity will generate the lower capital gains rates on the sales proceeds, you need to consider several factors. You may have an active business if:

- You buy, fix, and sell homes on a regular and continuous basis throughout the year.
- You hire subcontractors.
- You invest a substantial amount of your time in this activity.
- The homes are held by you for less than one year.
- Your intention is to make a profit.

Keep in mind that no one factor determines a business activity. You must consider all the facts and circumstances. If you have a business and not a hobby, the IRS requires you to pay self-employment tax on your profits. If your business is incorporated, you must pay yourself a reasonable wage for the services you provide.

Disabled Access Credit

Save money by providing disabled customers access to your business

Complying with the *Americans with Disabilities Act* (ADA) is not only the socially responsible thing to do, but it can save you tax dollars. Certain eligible small businesses that make reasonable and necessary improvements or modifications to their businesses that enable access for disabled customers or clients may be eligible for a tax credit.

You are considered an “eligible small business” if your gross receipts for the preceding tax year did not exceed \$1 million





or, if your gross receipts were greater, you did not employ more than 30 full-time employees during the preceding tax year.

Your tax credit equals 50 percent of the “eligible access expenditures” for the taxable year that exceed \$250 but do not exceed \$10,250. The maximum amount of the credit is \$5,000. Eligible expenditures include:

- Removing architectural, communication, physical, or transportation barriers that prevent your business from being accessible to or useable by individuals with disabilities;
- Providing qualified interpreters or other effective methods of making materials available to individuals with hearing impairments;
- Providing qualified readers, taped texts, and other effective methods of making otherwise visually delivered materials available to individuals with visual impairments;
- Acquiring or modifying equipment or devices for individuals with disabilities; or
- Providing other similar services, modifications, materials, or equipment.

Does Your Business Need a Retirement Plan for Employees?

A SIMPLE IRA plan may be an option for you

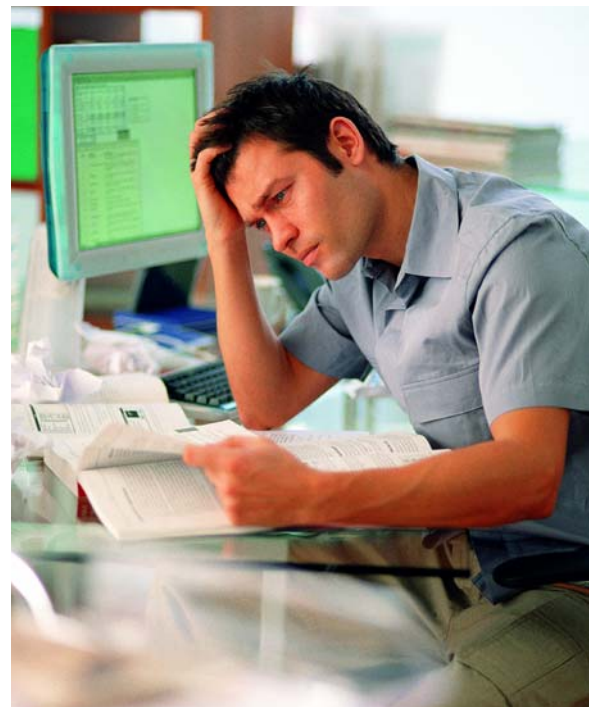
There are numerous retirement plans available for the small business owner. Some are more complicated to manage than others. If you want to start a retirement plan for your employees, a Savings Incentive Match Plan for Employees (SIMPLE) may be the answer.

As the name implies, a SIMPLE is relatively simple to set up and administer. A SIMPLE retirement plan is available to small businesses that employ no more than 100 employees. It makes no difference whether you are self-employed or whether your business is incorporated.

A SIMPLE plan allows your employees to make elective contributions to an individual retirement account (IRA). Employee contributions must be based on a percentage of their compensation and cannot exceed \$10,000 for 2006. Employees age 50 or older can elect to defer an additional \$2,500, not to exceed their compensation.

As an employer, you must satisfy one of two contribution formulas:

- 1) Under the matching contribution formula, your company generally would be required to match employee contributions dollar-for-dollar up to three percent of each participating employee’s compensation. If an employee chooses not to participate and does not make elective deferrals, you are not required to make a contribution on their behalf.
- 2) Instead of making matching contributions, you can elect to make a two-percent contribution for each eligible employee who earns at least \$5,000 in compensation during the year. Under this option, you must cover all



eligible employees regardless if they are making elective deferrals.

A SIMPLE is appealing in the sense that the plan is somewhat flexible. The employee's elective deferrals are not limited to a percentage of their compensation, but to a dollar amount. In other words, if the employee only earns \$10,000, they can defer 100 percent of their compensation. From the employer's standpoint, SIMPLEs are appealing because they are not subject to the somewhat complex qualification rules. One word of caution, however: a SIMPLE must be established by October 1 of the year you wish to begin contributions.

Meal Rates for Day Care Providers

Keeping track of meal expenses is easier than ever

If you provide day care services in your home, one of the most difficult expenses to track is meals. The IRS has made it easier for you by allowing a standard meal rate that can be used in lieu of actual expenses.

Meal	Alaska	Hawaii	All Other States
Breakfast	\$1.68	\$1.23	\$1.06
Lunch/Dinner	\$3.17	\$2.29	\$1.96
Snack (2)	\$0.94	\$0.68	\$0.58

Thinking of Selling Your Business?

Consider the tax implications before deciding

How do you place a price on years of hard work? The answer to that question depends on the type of business you operate. The first step you need to take is to find a reputable business appraiser. A business appraiser can guide you in placing a value on your assets, allowing you to command a fair selling price.

The sale of a business is not usually a sale of one asset. Instead, all of the assets of the business are sold. Generally, when this occurs, each asset is treated as being sold separately for determining the treatment of gain or loss. Assets are divided into two categories: *tangible*

QUIK TIPS

- 1** If you provide your employees a vehicle for work, and they use it for personal reasons, the value of the personal use must be included in their wages.
- 2** If you are a sole proprietor and employ your child this summer, and that child is under the age of 18, the wages are not subject to social security taxes. A similar exemption applies to FUTA taxes on earnings paid to your child who is under the age of 21.
- 3** Are you debating whether to sell your rental property? Consider a like-kind exchange. Even if you replace the rental property with unimproved land, you can potentially postpone hundreds of dollars in tax.
- 4** As a self-employed taxpayer, you may wish to consider a sole-owner 401(k) retirement plan. As an employer, you may contribute up to 25 percent of your total income to your retirement plan, and, as an employee, you may also contribute up to an additional \$15,000 in 2006.
- 5** For 2006, you can write off up to \$108,000 of the cost of qualifying equipment that you purchase for use in your business.
- 6** The standard mileage rate for the business use of your vehicle is 44.5 cents per mile for 2006. You can use the standard mileage rate even if you lease your vehicle.





assets such as real estate, furniture, fixtures, equipment, and possibly inventory, and *intangible assets* such as goodwill and a customer list.

If you are operating a service business, chances are good that the value of your business centers on your expertise. If that's the case, your main asset is most likely goodwill. If it is goodwill you created, you have zero basis in the asset and the entire gain is taxed as capital gain.

The sale of tangible assets, such as fixed assets and inventory, generate ordinary income. The sale of real estate can also generate ordinary income depending on when the building was placed in service. If the building was placed in service after 1986, the gain is taxed at the capital gain rates.

If you are incorporated, you can either sell your stock, or the corporation can sell the assets. If the assets are sold, the corporation pays the tax on any gain. You, as a shareholder of the

corporation, do not have a tax consequence unless the corporation liquidates and distributes the proceeds of the sale to you in exchange for your stock. Different rules apply if you are an S corporation.

It is important to determine what the potential tax consequences are prior to signing the sales contract. If you want to defer the gain on the sale, an installment agreement might be the best option.

Your Home-Based Business

Is it *really* a business?

Have you ever listened to a seminar on how to earn extra money by starting a home-based business? Often the speaker will tout the tax benefits of such activities by claiming you are allowed to deduct all sorts of expenses related to your home that are normally considered personal expenses. If the idea seems too good to be true, it often is. In some cases, the IRS has determined that some of these purported income-producing activities are nothing more than a scheme designed to avoid paying tax, and they have shut them down.

In order to deduct expenses related to the business use of your home, you must operate a “bona fide” business, as well as meet other specific requirements. Even then, your deduction may be limited. To qualify to claim expenses for the business use of your home, you must meet the following requirements:

- 1) Your use of the business part of your home must be:
 - Exclusive;
 - Regular; and
 - For your trade or business.
- 2) In addition, the business part of your home must be *one* of the following:
 - Your principal place of business;
 - A place where you meet or deal with patients, clients, or customers in the normal course of your trade or business; or
 - A separate structure (not attached to your home) you use in connection with your trade or business.

The thing to keep in mind is that operating a home-based business cannot simply be a way to deduct otherwise nondeductible expenses. You must have a bona fide business purpose with the intention of making a profit. Don't fall prey to a con artist who promises huge profits and even bigger tax savings.

