volume 20, number 1

financial business edge

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Is Your Home Office Tax Deductible?

Whether you own your own business or are an employee, if you work at home regularly, you may be able to claim a tax deduction for your home office and for related expenses. Because the IRS guidelines for tax deductions pertaining to the use of a home office are complex—and because the IRS has been known to audit filers whose home office deduction claims appear suspicious—many home workers are reluctant to claim tax breaks to which they are entitled. But if your situation clearly fits the IRS's specific criteria, taking advantage of these home office deductions could trim your tax bill.

The amount you may deduct is related to the percentage of your home used to conduct business. For tax purposes, the IRS defines "home office" as any business space in a "home" that is otherwise occupied as a residence, including a house, apartment, condominium, mobile home, or boat. It is even permissible to claim a deduction for a separate structure on a residential property used exclusively for business purposes, such as a studio, garage, or barn. The types of expenses you are permitted to deduct for the business use of your home include the business portion of property taxes, mortgage interest, rent, utilities, insurance, depreciation, maintenance, and repairs.

To claim expenses for the business use of your home, you must use a specific area of your home regularly and exclusively for your business or trade, or as a place to meet or deal with patients, clients or customers in the normal course of your trade or business. To qualify under this test, the area must be a separate room, or a clearly identifiable space within a room, that is not used for personal activities. The room or area you designate as your office may not, for example, double as a bedroom or dining room.

To satisfy the IRS requirements, the office must also be used on a regular—not incidental or occasional—basis. While "regular" is not defined specifically, it is generally considered possible to meet this test if you use the office at least two days a week or a few hours every day.

Even business owners who do most of their work in the field can qualify for this deduction if they use the office space to handle most of the management and administrative tasks of the business, such as customer billing, bookkeeping, ordering, arranging appointments, or writing reports. The home office must, however, be the principal place of business. Under certain conditions, it may also be possible to deduct space used for storing inventory or product samples.

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Creating a Business Dress Code

What employees wear and how they present themselves to customers and shareholders influence not only the company reputation, but the culture within the organization. Employees who are appropriately dressed make a good impression on the public; at the same time, they inspire confidence within the company.

Human resource managers charged with creating and upholding the dress code for their companies should clearly outline their expectations. Use the following business attire guidelines as you form or refine your office policy:

If your company is frequently visited by customers, clients, and the public, it may choose a **formal** dress code. While over the years fewer and fewer workers dress this way for work, it is the favored attire in conservative professions such as finance. Formal business attire for men includes dark tailored suits, ties, button-down dress shirts, sports jackets, dress pants, and dark leather shoes. For women, formal attire may include coordinated pant and skirt suits (skirts are knee or calf length), blouses with high necklines, blazers, and closed-toe shoes with low heels. Your image to clients should be the most important factor in determining what is appropriate formal business attire. Hosiery is preferred, and perfume and jewelry are not encouraged.

The conservative look extends to personal grooming too. Facial hair should be groomed and tattoos covered.

Like formal dress, **business casual** dress is often the chosen style when the company serves customers, but it can include suits of lighter but conservative colors, dress pants, khakis, sports jackets, button-down shirts, skirts, and dresses. Less formal footwear is also acceptable, such as loafers and athletic shoes. Other acceptable examples include a polo shirt and pressed pants, a sweater and shirt with pressed pants, and a jacket, sweater, and skirt. Items such as jeans, t-shirts, shorts, shirts without collars, flip flops, sun dresses, and sandals are not appropriate.

Last but not least, the **casual** dress code encourages employees to dress comfortably for work keeping in mind appropriate casual dress for a business setting. Appropriate dress includes anything from the categories above and jeans, t-shirts, shorts, shirts without collars, flip flops, sun dresses, and sandals. Avoid clothing that other employees would find offensive or that would make them uncomfortable, such as a t-shirt with a cause imprinted on it or a skirt that is too short. Even if they are dressing casually, employees are expected to demonstrate good judgment and taste.

The above business attire guidelines can help as you form your company policy. You might want to include actions that human resource personnel should take if an employee does not adhere to the dress code. When an employee does not comply with the dress code, an HR representative should have a private conversation with him or her.

Designing an Employee Benefit Plan

When you begin to create an employee benefit plan, you may want to start with a few core benefits, including life insurance, health insurance, and a retirement plan. These benefits form a base from which your company's benefit plan can grow and evolve in the future. Every year or two, it may be wise to consider the addition of a new benefit to the plan, such as dental insurance or disability income insurance. Rather than bearing the entire burden of cost, you can contribute a portion of the cost, with your employees paying the balance.

Before you add a new benefit to your existing employee benefit plan, be sure to talk to your current employees to see what benefits they would like added and to which they are likely to make contributions. For example, if your employee population comprises young, single employees without dependents, a dependent life insurance plan, one that would provide a benefit in the event of the death of an employee's spouse or qualified dependent child, would be underutilized and, most likely, unappreciated. But, if your employee population is largely made up of "30-somethings," who are married with young children, the same dependent life insurance plan might be an ideal addition to your existing benefit plan. Remember that your employee benefit plan is not static. It must change and evolve with your company's growth, profitability, and employee demographics in order to be effective as a retention and recruitment tool.

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designing an employee benefit plan

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Regulations

Most employee benefit plans are regulated by strict Federal guidelines, including continuation of coverage rules for medical insurance and rollover and distribution requirements for qualified defined benefit and defined contribution plans.

In order to avoid discrimination and liability, a benefit offered to one employee should be offered to all employees, regardless of race, age, gender, disability, and employment category. Employers must design employee benefit plans to comply with a number of Federal statutes, including the Employee Retirement Income Security Act of 1974 (ERISA), the Age Discrimination in Employment Act (ADEA), the Older Workers Benefit Protection Act (OWBPA), the Civil Rights Act (CRA), the Consolidated Omnibus Budget Reconciliation Act (COBRA), and the Equal Pay Act (EPA). While employers may offer discretionary benefits to their key employees, these benefits will be categorized as nonqualified benefits, and the cost of providing them will not be deductible for the employer, as the costs of other qualified benefits might be under the Internal Revenue Code (IRC).

Your Employees Depend on You

As an employer, you have an obligation to provide your employees with compensation in exchange for work performed on your behalf. In addition, you have the opportunity to create an employee benefit plan that will improve the morale of current employees and enhance recruitment efforts, as well as provide tax incentives for

your company. A professional with experience in designing health, welfare, and pension plans can assist you in designing a plan that's right for you and your employees and that adheres to your overall budgetary requirements.

Family-Friendly Policies Help Retain Top Workers

Attracting and retaining top employees is a key issue for many companies in today's marketplace. With cost control a high priority for employers across the nation, businesses can benefit from understanding the various noncompensation-related factors that can contribute to greater workplace satisfaction.

Workplace Initiatives

One way for companies to attract and retain quality workers is to broaden their family and medical leave policies. From an employee's perspective, the guarantee of a job at the end of such a leave is an important aspect of an overall benefits package. Employers also benefit since low employee turnover decreases training costs and enhances continuity. Thus, many companies recognize that it makes good business sense to adopt a family-friendly approach as the benefits outweigh—or offset—the costs that may otherwise be incurred.

Under the **Family and Medical Leave Act (FMLA) of 1993,** businesses with more than 50 employees are required to provide eligible employees with up to 12 weeks of unpaid leave for childbirth, adoption, or serious illness of the employee or of an immediate family member. Small businesses—to which FMLA does not apply—are not required to do so, but they may choose to enact benevolent leave policies.

According to the most recent U.S. Department of Labor survey, *Family and Medical Leave Act: Final Report,* the FMLA continues to make a positive impact on the lives of workers without imposing an undue burden upon employers, and employees find it relatively easy to comply with the law. Several of the changes to the FMLA regulations made in the Final Rule, including military caregiver leave for a veteran, qualifying exigency leave for parental care, and the special leave calculation method for flight crew employees which became effective in 2013.

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IRS guidelines for home office deductions are meant solely for a legitimate, profit-making business, not a hobby. You may deduct all of your business expenses only if the gross income from your home business equals or exceeds your business expenses. Business expenses that cannot be deducted due to gross income limits may, however, be carried forward to the next year.

Different tests apply if you are an employee who telecommutes. As an employee, you are not permitted to claim a home office deduction if you are working from home for your own convenience, but you are entitled to a tax break if your employer has asked you to work from home as a condition of employment. You would, for example, qualify for a home office deduction if you work from home because your employer wishes to save money by no longer providing you with a work station.

Even if you are unable to qualify for the home office deduction, you may be able to deduct other business-related expenses not reimbursed by an employer, such as the cost of separate business phone lines, office supplies, computers, and other types of equipment. Miscellaneous deductions which exceed 2% of your AGI will be eliminated for the tax years 2018 through 2025.

It is essential to maintain detailed records if you wish to claim these deductions. In addition to retaining receipts for any home business-related purchases, maintain appointment books and calendars that show that your home is used to meet clients or conduct business. It is also helpful to use your home address for business correspondence and on business cards.

Under certain circumstances, the sale of your house could result in a capital gains liability if you have taken advantage of home office tax breaks. Because claiming these deductions can be complicated, it is essential to seek advice from a tax professional before filing.

family-friendly policies help retain top workers

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Coverage Concerns

While many employers may theoretically favor the idea of family and medical leave, it is not surprising that they may also be concerned about getting the work done during an extended leave. Assigning the work to other employees or outsourcing certain functions may be practical in some cases, but not in others.

Fortunately, the rise in the number of qualified individuals working for temporary staffing agencies offers a solution. In the past, “temps” or contractors may have been viewed as less qualified workers. But in a challenging economic climate, more individuals choose temporary or contract work in all levels of positions for a variety of reasons. Whether a company needs a short-term administrative assistant, graphic designer, engineer, proofreader, Web programmer, or even a chief financial officer, staffing agencies can often provide the skilled workers to fill in for a week, a month, or even longer.

It Makes Good Business Sense

A family-friendly work environment can benefit everyone in your workplace. Employees benefit when their employers support their need to care for newborns, children, and aging parents by providing job security during medical leaves. Finally, small businesses benefit by reducing turnover and retaining skilled employees.

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