

TAX STRATEGIES

Grow your profits—pay less tax

Business Management Daily

Tax News

- **Expand your party guest list.** Are you hosting a get-together and inviting a few top-echelon employees? Invite the entire workforce instead. *Reason:* You can write off 100% of your cost instead of the usual 50% limit for entertainment deductions.
- **Make it a tax-deductible sea cruise.** The IRS permits you to deduct up to \$2,000 when attending a business convention or seminar held aboard a U.S.-flagged cruise ship. To qualify, you must establish that the cruise ship is U.S. registered and all ports of call are in the United States or its possessions. The business meeting must be the trip's primary purpose.
- **Take the easier path to employment tax filing.** If your company expects to owe less than \$1,000 in employment taxes annually, it can file Form 944, *Employer's Annual Federal Tax Return*, once a year rather than filing the quarterly Form 941.
- **Use the IRS web tool for retirement plans.** Uncle Sam has developed another interactive web tool for employers. Now you can determine your company's responsibilities under the Employee Retirement Income Security Act (ERISA) online. Access the ERISA Fiduciary Advisor at www.dol.gov/elaws/ERISA/Fiduciary.htm.

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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 set-up, 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. In fact, many retirees take the standard deduction rather than itemizing.

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

1. It puts cash in their pockets without them having to refinance or dip 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.

Continued on top of page 2

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 \$49,000, whichever is less.

With a 401(k) plan, another dollar limit applies: Your spouse can defer up to \$16,500 to the plan (plus an extra \$5,500 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

Continued on bottom of page 2

Parents' home (Cont. from page 1)

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)

But don't set the rent too low; the IRS might say the rental home is really for your personal use. In that case, 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. Any allowable tax loss will phase out for people with adjusted gross incomes between \$100,000 and \$150,000. 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!

Grab 5 tax perks (Cont. from page 1)

company falls in a 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.

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 \$13,000 a year—or \$26,000 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 \$130,000 (5 x \$26,000) on behalf of a grandchild this year without paying any gift tax. If you have five grandchildren entering college soon, together you can contribute \$130,000 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 \$1 million gift-tax exemption.

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.

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

Most limits for retirement plans haven't budged an inch in 2011. They're exactly the same as they were last year. 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 usual 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 is capped at the lesser of 25% of compensation or \$49,000 (\$54,500 if you're age 50 or older). The maximum compensation that may be taken into account for these purposes is \$245,000. 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 \$16,500 of compensation to your account, plus an extra catch-up contribution of \$5,500 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 an SEP in 2011 is \$31,250 (the lesser of 25% of compensation or \$49,000). If you set up a solo 401(k) plan instead, you can defer \$16,500 to the account in addition to keeping the maximum \$31,250 employer contribution. That gives you a total contribution of \$47,750 (below the \$49,000 limit). And, since

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.

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 \$47,750 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 \$2,359,944!

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 \$815,478 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 \$41,500 (\$16,500 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.

5 ways to derail the new Medicare tax

The monumental new health care legislation imposes a new Medicare tax on investment income collected by high-income individuals. However, the new tax doesn't kick in until 2013.

Strategy: Plan ahead to reduce or avoid this extra tax. Conversely, if you wait a couple of years to make your moves, it may be too late.

To recap, you must pay a 3.8% Medicare tax on the lesser of net investment income or the excess of modified adjusted gross income (MAGI) over a \$250,000 threshold (\$200,000 for single filers), for tax years beginning after 2012. "Net investment income" includes interest, dividends, royalties, rents, gains from dispositions of property and income from passive activities.

If you expect to clear the threshold in 2013, here are five long-term ideas:

**If you wait
a couple of years
to make your moves,
it may be too late.**

1. Think about selling your home. You can exclude tax on the first \$250,000 of gain from a home sale—\$500,000 for joint filers—if you've owned and used the place as your principal residence for at least two of the five years prior to the sale. But the 3.8% Medicare tax may apply to a portion of the gain that doesn't qualify for the exclusion (assuming your income is high enough for the taxable portion of the gain to be affected by the new tax).

If you were planning to move soon anyway, complete the home sale before 2013. For example, if a couple can sell their home for an \$800,000 profit, they'll realize a savings of at least \$11,400 (3.8% of \$300,000). Similarly, you might arrange to sell a vacation home by the end of 2012.

2. Increase participation in "passive" activities. Net investment income includes amounts generated by passive activities such as rental real estate. Therefore, if you own a business interest where you do not take an active role, you might get socked with the extra tax liability, starting in 2013.

However, if you "materially participate" in the business, the income generally will not count as net investment income. Start taking on a management role to meet the material participation test.

Note: Special rules apply to rental real estate.

Will you owe the Medicare tax?

The extra 3.8% Medicare tax applies only to the extent your MAGI exceeds the annual threshold.

Example 1: You're a single filer with net investment income of \$100,000 and a MAGI of \$195,000 in 2013. No Medicare tax is due because your MAGI doesn't exceed the \$200,000 threshold.

Example 2: You're a joint filer with net investment income of \$100,000 and a MAGI of \$275,000 in 2013. The Medicare tax is due on the \$25,000 excess over the \$250,000 threshold. Thus, the extra tax is \$950 (3.8% of \$25,000).

3. Add munis to your portfolio. The income from municipal bonds is exempt from federal income tax. So buying munis won't result in the extra tax on net investment income. However, if you're late to the party, you might have to pay a higher price.

Caveat: Consider all the economic aspects, not just taxes.

4. Build up your 401(k) account. Distributions from a qualified retirement plan, like a 401(k) or an IRA, don't count as net investment income.

Therefore, the more you can put away in your 401(k) plan (within the tax law limits), the more you can shelter from the extra Medicare tax. At the same time, you're setting aside more funds that can grow on a tax-deferred basis until you're ready to retire.

5. Favor Roth IRAs. As mentioned above, IRA distributions aren't subject to the 3.8% Medicare tax. But post-2012 distributions from a traditional IRA will increase your MAGI, which could result in a higher tax. In contrast, qualified distributions from a Roth in existence at least five years are 100% tax-free, as long as you are age 59½ or older.

Even if you don't convert this year, consider a pre-2013 conversion to avoid increasing MAGI in a year when the Medicare tax applies.

Tax Court approves tuition deduction for MBA

A taxpayer who represented herself in a Tax Court tussle with the IRS has prevailed in a surprising decision. (*Singleton-Clarke, TC Summary Opinion 2009-182*) The Court allowed the taxpayer to deduct almost \$15,000 of tuition incurred to attain a master's degree in business administration (MBA).

Alert: The case may open the door to deductions in similar situations. In the past, the Tax Court generally has interpreted the complicated rules on business education in favor of the IRS.

For example, if you take additional courses to better yourself at work, you may now qualify for big deductions—even if the education leads to a new degree.

Here's the whole story: You can deduct the cost of education as a business expense only if you pass one of these 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.

On the other hand, you can't deduct your expenses—whether or not you qualify under either test—if the education is needed to meet pre-existing minimum educational requirements of your current employment or if it qualifies you for a new trade or business.

This sounds simple enough, but the lines can become blurry when you apply the rules to real-life situations. In particular, it's often difficult to distinguish education that “maintains or improves” current job skills from education that qualifies you for a “new trade or business.”

The Tax Court has traditionally treated coursework toward a master's degree as education that qualifies the student for a new trade or business. But there have been several noteworthy exceptions. Here's the latest example.

Case in point: The taxpayer worked as a registered nurse for 24 years at a number of hospitals, medical centers and long-term care facilities. In 2005, she began taking courses online from an accredited university. The taxpayer graduated with an MBA in health care management in 2008.

Although the MBA was not required for her job, the taxpayer believed the advanced degree would give her greater credibility and make her more effective in her present and future role as a quality-control coordinator.

The Tax Court ruled that the education did not qualify the taxpayer for a new trade or business.

The MBA may have improved her pre-existing skill set, but she was already performing the tasks and activities of her trade or business. Therefore, the education expenses were deductible.

If you qualify under these rules, you can deduct the education expenses as business expenses. For employees, unreimbursed business expenses are deductible as miscellaneous expenses on Schedule A, subject to the 2%-of-AGI floor. Self-employed individuals deduct the expenses in full on Schedule C.

The expenses you may deduct as business education include:

- Tuition, books, supplies, lab fees and similar items
- Certain transportation and travel costs (*see box*)
- Other related expenses (e.g., costs of producing term papers or school projects).

However, you can't deduct personal or capital expenses, such as the cost of a new laptop or the value of leave time you use to attend classes.

Tip: If an employer pays for an employee's education expenses under a qualified educational assistance plan, the employee can receive up to \$5,250 of annual tax-free reimbursements.

Commuting to school? Keep tax meter running

Don't forget to deduct the cost of your transportation to and from school as work-related education. This includes amounts spent for bus or train fares, cab fares and automobile expenses.

Strategy: Take the tax shortcut for deducting auto expenses. For 2011, you can use the standard mileage rate, plus tolls and parking fees, for education-related travel. This saves you the hassle of tracking your actual commuting expenses to school.

Let's say you travel 50 miles round trip three nights a week for two semesters, with each semester lasting 16 weeks. The annual campus parking pass costs you \$300. Using a standard mileage rate of 51 cents per mile, for example, you're entitled to deduct \$2,748 (51 cents x 4,800 miles + \$300).

Note that you also can deduct the transportation expenses incurred between your workplace and school if you go directly to school after work. Also, the cost of transportation from school to work is deductible if you attend school early in the day and go from class to work.

Tip: There are no tax-law limits on the distance you travel. So you can attend the school of your choice and deduct whatever it costs to go back and forth.

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.

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 donors. 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 cell phone 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.

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



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SB6642

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Small Business Tax Strategies (ISSN 1935-1992) is published monthly by Business Management Daily, 7600A Leesburg Pike, West Building, Suite 300, Falls Church, VA 22043-2004, (800) 543-2055, www.SmallBizTax.net. Annual subscription price: \$299.

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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.

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.

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.

IRS carves out new safe-harbor rule

The IRS has approved a new “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 pro.



Mail Call

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/pub/irs-pdf/p587.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 2006, but my wife is still working. I'm now 66, 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 15 to jointly contribute up to \$12,000 to your IRAs (assuming either of you earned at least that much in compensation during the year). That maximum \$12,000 contribution can be divided among your IRAs in any manner in which you see fit as long as no more than \$6,000 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 new 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.

Know the difference 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. In one case, the IRS said payments to an owner's daughter (who was an employee) were for past services, not a gift. Talk with your tax pro if you face a similar dilemma.