

Working from home?

Know what's deductible

If you're self-employed and use part of your home for business, you may be able to deduct expenses allocable to the business use. The home office deduction is available for homeowners and renters. To qualify for the deduction, you must use the space in your home regularly and exclusively as your principal place of business. Any personal use of the space will disqualify you from claiming a home office deduction.

You may choose one of two methods for calculating your deduction — the simplified method or the regular method. The simplified method allows you to claim \$5 per square foot for a maximum of 300 square feet. This gives you a home office deduction of no more than \$1,500. No other deductions are allowed. You are still permitted, however, to claim any mortgage interest or property taxes on Schedule A, if you itemize deductions.

The regular method requires a bit more record-keeping. Generally, when using the regular method, deductions for a home office are based on the percentage of your home devoted to business use. So, if

you use a whole room or part of a room for conducting your business, you need to figure out the square footage of the business use compared to the square footage of your entire home. This percentage is then used to calculate the percentage of deductible expenses such as mortgage interest, insurance, utilities, repairs and depreciation.

You may choose to use either the simplified method or the regular method for any taxable year. Once you choose, you cannot change your mind for that year. You can, however, use the simplified method one year and the regular method in another. If you use the simplified method for one year and use the regular method for any subsequent year, you must calculate the depreciation deduction for the subsequent year using the appropriate optional depreciation table.

During 2020, many employees were sheltering in place and forced to work from home. The current rules for deducting home office expenses do not apply to employees since deductions for employee business expenses have been suspended until 2026.



Handling business losses

CARES Act eases the rules

In 2017, the *Tax Cuts and Jobs Act* (TCJA) provided that net tax losses from businesses in excess of an inflation-adjusted \$500,000 for joint filers, or an inflation-adjusted \$250,000 for other taxpayers, are to be treated as net operating loss (NOL) carryforwards in the following tax year. This new rule eliminated the ability for a business owner with a loss to carry back the loss to a prior year, thus delaying any tax benefit.

Earlier this year, the CARES Act liberalized this rule by retroactively postponing the limits, so they now apply to tax years beginning in calendar years 2021 through 2025. This means the \$500,000 limitation (or \$250,000 for single taxpayers) on excess business losses for non-corporate taxpayers does not apply until Jan. 1, 2021. As a result, affected taxpayers may be able to fully deduct business losses arising in 2018, 2019 and 2020. The CARES Act also eliminated the TCJA rule that limited a loss to 80% of taxable income. Companies are now permitted to fully offset their taxable income in such taxable years with NOL carryforwards without regard to the year in which such NOL arose. NOLs from taxable years beginning after Dec. 31, 2017, that are carried forward to taxable years beginning after Dec. 31, 2020, will be subject to the 80% limitation that was enacted as part of TCJA.

In summary, the CARES Act reinstates loss carrybacks for NOLs arising in 2018, 2019 and 2020 (taxable years beginning after Dec. 31, 2017, and before Jan. 1, 2021) to the five taxable years preceding the taxable year in which the loss arose. Taxpayers generally have 120 days after March 27, 2020, the date of enactment of the CARES Act, to either carry back their 2018 NOLs or relinquish the carryback period and carry such amounts forward.

Did you receive a PPP loan?

For some, it may be tax free

Many small businesses impacted by the coronavirus pandemic were eligible to apply for a loan through the Payroll Protection Program (PPP). These loans were essential for helping to keep employees working and businesses open. You've probably heard a lot in the media as to what the loan proceeds can be used for and whether they need to be repaid.

In general, 100% of the loan can be forgiven—if you meet certain criteria. First and foremost, to get your loan forgiven, you'll need to complete a PPP loan forgiveness application form and submit it to your lender. You can obtain the necessary form (Form 3508 or Form 3508-EZ) from the Small Business Administration at [sba.gov](https://www.sba.gov).

Secondly, you must use the funds from the loan for certain expenses. The funds from the PPP can be used for the following:

- Payroll (salary, wage, vacation, parental, family, medical or sick leave, health benefits)
- Mortgage interest, if the mortgage was signed before Feb. 15, 2020
- Rent, if the lease agreement was in effect before Feb. 15, 2020 (rent includes rental of office space business equipment, vehicles or warehouse)
- Utilities, if service began before Feb. 15, 2020 (utilities include electricity, water, gas, sewage, cell phone/landline, internet and transportation costs)

Eligible expenses are those that are incurred over 24 weeks, starting from the day the first payment was made by your lender. This is not necessarily the date on which you signed your loan agreement. At least 60% of the loan proceeds must be used to cover payroll costs. The remaining 40% can be used for other costs.

While all this seems straightforward, there are several other conditions of forgiveness that are dependent on how many employees you retain and how much you pay them. It's advisable that you seek assistance before attempting to tackle this on your own.



Payroll tax deferral

What this means for you

On Aug. 8, 2020, a Presidential Memorandum was issued allowing employers the option to defer withholding and payment of the employee's portion of Social Security tax if the employee's wages are below \$4,000 on a bi-weekly basis. The relief is available for employers and generally applies to wages paid starting Sept. 1, 2020, through Dec. 31, 2020.

On the surface, this seems like a great benefit. Workers who participate in the president's payroll tax deferral will see a temporary increase in their take-home pay, but it's not without consequences. Should you choose to go this route, your employees will likely see smaller than normal paychecks in early 2021.

Under this new rule, employers can stop withholding the 6.2 percent of the employee's portion of Social Security tax from paychecks through the end of 2020. However, if you opt to participate, you'll need to recoup that money by increasing the amount of taxes withheld from your employees' paychecks from January through April 2021.

The result is that workers whose taxes are deferred would see bigger paychecks this year and smaller than normal paychecks next year, unless legislation is enacted to forgive the deferred taxes. At this point there is no indication that will happen.

\$179 vs. bonus depreciation

Either choice brings large deductions

Eventually all business owners will need to purchase or replace assets. When this happens, they need to determine how the cost of those assets will be recovered. Typically, the cost of business assets is recovered over their expected life through depreciation. If your goal is to recover that cost faster, you can either expense it under §179 or bonus depreciation.

Only certain property qualifies for the §179 deduction. That property includes tangible personal property, certain computer software and certain qualified real property, such as interior improvements, HVAC or alarm systems or roofs. The property must be



acquired by purchase, meaning it cannot be a gift to you or property that you already own and convert to business use.

Under §179, businesses can deduct up to \$1,040,000 of qualified equipment immediately, with a limit of \$2,590,000, after which the deduction begins to phase out on a dollar-for-dollar basis. The deduction is limited to your taxable income from the business; however, any amount that can't be deducted because of this limitation is carried over indefinitely to later years.

You can choose which purchases to cover under the §179 deduction and which to save as future tax breaks. You can even split the deduction for individual purchases (for example, claiming half the cost of a new car upfront while spreading out the rest of the purchase over time). One notable drawback to the §179 deduction is that if the business use drops to less than 50%, some or all of your previous deduction must be recaptured.

Bonus depreciation, on the other hand, has slightly different rules. First, there are no income limits or limits on how much you can spend on assets and write off. If you are a larger business planning to make large purchases of new or used assets, this option may look better for you.

Essentially, bonus depreciation allows you to deduct 100% of the cost of an asset in one year. Qualifying

property for bonus depreciation must have a class life of 20 years or less and can include a wide variety of interior, non-load-bearing building improvements. Unlike §179, bonus depreciation does not apply to roofs, HVAC, fire protection systems, alarm systems and security systems.

One significant difference between bonus depreciation and §179 is that if you place several assets with the same class life, you must elect bonus depreciation for all or none of them. Electing §179 allows you to choose. The 100% bonus depreciation amount remains in effect from Sept. 27, 2017, until Jan. 1, 2023. After that, first-year bonus depreciation goes down 20 percent each year and is set to completely expire after 2026. There is no statutory end to §179.

While on the surface it may not look like there's much difference between the two, the method you choose depends on several factors, such as your income, the type of property you purchase and when it's placed in service.

How to protect your business and your customers

Cyberthieves are everywhere

Everyone knows that having strong locks, a security alarm and perhaps a security guard will help protect your business from a physical break in. But what

about the sneaky cyberthieves you can't see coming? There are several things you must implement to protect yourself, your livelihood and your client or customer data. Here are a few essential tips:

- Encrypt your data. Software programs are available to help you do this.
- Use strong passwords and change them often. The longer the password, the better.
- Back up your files often, daily if possible. Using the cloud is a great option.
- Avoid public WiFi. If you do one thing, forbid all use of public WiFi for work activities.
- Provide alternatives such as a mobile virtual private network (VPN) for employees to use when they're not in the office.
- Install antivirus software and use firewalls to protect you from unwanted intrusions.
- Keep your operating systems up to date with the latest security features.
- Develop policies for suspicious emails. This means educating your employees on how to recognize phishing and other suspicious emails.

Cyberattacks have become common, and there is no better investment for your business than a good security plan. If you aren't confident you can create one on your own, hire an expert.

