Wander CPA

Tax-Saving Tips

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Buy Your Employees (and Yourself) Flowers and Fruit, and Deduct the Cost

Under the de minimis fringe benefit rules, your business deducts the cost of giving you or your employees flowers, fruit, books, and similar property under special circumstances. The recipients—you or your employees—receive these fringe benefits tax-free.

You can't do this too often or spend too much money. But it's easy to see that this is a great benefit, especially when you give to yourself.

For your business to make this fringe benefit tax-free, it must meet two requirements—value and frequency. Here the IRS has not been very helpful in defining either criterion. With some research, we arrived at $70 as the maximum value for the flowers, fruit, books, and similar property.

How often is too often? The IRS doesn't say, but it adds some common sense to the regulation with this guidance as to when this fringe benefit is appropriate: "Examples of de minimis fringe benefits are … flowers, fruit, books, or similar property provided to employees under special circumstances (e.g., on account of illness, outstanding performance, or family crisis)."

Just don't use gift cards or certificates. The IRS considers the coupon or gift card taxable to the recipient no matter how small the amount, even if that small amount is used solely to buy the flowers or fruit.

Due Diligence Is Critical to Buying a Business

You have much to consider when you buy an existing business. If you are deciding whether to purchase an existing business or to start a new business from scratch, due diligence is critical to making an informed decision. Here are just a few examples of how due diligence works in your favor:

- If you are buying the assets of the target business, make the target comply with the applicable bulk sales law so that creditors cannot "follow the assets" to the new owner (you) and make claims against you.
- To avoid being surprised by security interests and liens perfected under the Uniform Commercial Code (UCC), conduct a UCC filing search.
- Inspect local court records to identify undisclosed liens or judgments against the target business or the existence of current or past litigation against the business, its owner(s), or its officers.
- Review the target business entity's income, payroll, property, sales, use, and excise tax returns for several years to identify exposure to underpaid taxes.

We have a wealth of experience in this area and can help you in any way you need. Please don't hesitate to give us a call.

Beating Penalties for Misclassifying W-2 Workers as 1099 Contractors

One potential business tax reduction strategy is to hire independent contractors instead of employees. If a worker's classification fits within the tax law, it's a legitimate strategy that can save you thousands of dollars. But sometimes the classification isn't clear-cut. You may think you have the independent contractor classification correct, but when the IRS does the audit, you could learn the IRS considers those contactors W-2 employees. This can cost you a huge sum of money in back payroll taxes.

The law requires that you withhold taxes on the wages you pay to your employees. If you don't, you are liable for the withholding and FICA (i.e., Social Security and Medicare) taxes that you neglected to remit to the IRS. Thus, if the IRS reclassifies your independent contractors as W-2 employees, you are on the hook for the taxes you should have taken from the paychecks.

But you have a way out of a big chunk of this potential tax bill: If you can show the worker paid the taxes, then you aren't liable for them. This rule prevents the taxes from being paid twice. For this favorable treatment, which is on a worker-by-worker basis, you need the worker to sign IRS Form 4669, Statement of Payments Received.

Private Debt Collectors Are Coming to a Doorstep Near You

A large chunk of overdue tax bills has sat idly uncollected due to the IRS's lack of resources. But that's about to change, thanks to some debt collectors that the IRS hired.

As part of the Fixing America's Surface Transportation (FAST) Act, lawmakers wrote a provision that requires the IRS to outsource inactive tax receivables to private collection agencies. About nine months ago, the IRS announced it had contracted with four private collection agencies to operate the program.

And then, a little over two months ago, the IRS released new Internal Revenue Manual sections putting in place the procedures for this new program. This means that delinquent taxpayers could now receive a Notice CP40 telling them that the IRS assigned their case to a private collection agency.

Beat the Recapture Tax on Your Home Office

The depreciation you claim with your home-office deduction is subject to a recapture tax when you sell your home.

But you may be able to avoid the recapture tax by following one easy step when it comes time to sell your current home and buy a replacement. And you not only avoid the recapture tax, but you also increase your tax basis in your replacement home. This gives you a double dip in tax benefits.

You make this work by following IRS Revenue Procedure 2005-14, which shows you how to combine the tax-favored Section 1031 tax-deferred exchange and the Section 121 home-sale exclusion rules so that you can sell your home and

1. avoid some or all the taxes on the sale of the personal part of your home,
2. avoid and/or defer some or all the taxes on the sale of the office part of your home,
3. avoid and/or defer some or all the taxes on the sale of the rental part of your home, and
4. defer all the taxes on the depreciation recapture caused by the office or rental part of your home.

If you decide to sell your home but before you take any steps to make that happen, contact us so we can help you make this tax-saving strategy work for you.