Wander CPA

Tax-Saving Tips

October 2017

Update on Health Savings Accounts (HSAs)

Health savings accounts (HSAs) are now more popular than ever. According to a recent survey, the number of HSAs has surpassed 21 million, and the accounts now hold about $42.7 billion in assets.

Here's a very tight summary of how the HSA works for you:

- **Deduct the health insurance cost.** To enable the HSA, your health insurance must be a high-deductible health insurance policy. Sole proprietors, partners, and S corporation owners can qualify to deduct this high-deductible insurance on page 1 of Form 1040. (The page 1 Form 1040 deduction does not suffer the 10 percent haircut that applies to itemized medical deductions.)

- **Deduct the HSA contribution.** For 2017, you can make a deductible HSA contribution of up to $3,400 if you have qualifying self-only coverage, or up to $6,750 if you have qualifying family coverage (anything other than self-only coverage). The deduction for the contribution is above the line, so it does not suffer from phaseouts and it's deductible whether you itemize or not.

- **Tax-deferred earnings.** The monies accumulated in your HSA grow and compound tax deferred (or even tax-free if you withdraw correctly).

- **Tax-free withdrawals.** Withdrawals from your HSA are tax-free when you use the monies to pay for qualified medical expenses. You can't pay your high-deductible premiums with HSA funds. But once you reach Medicare age, you can use the withdrawals for Medicare premiums in addition to other qualified medical expenses.

- **Retirement withdrawals.** You can make your HSA work like a traditional IRA after reaching Medicare age. To make this happen, you just withdraw funds from the HSA and don't use them for medical expenses. This triggers the federal income tax but no penalties.

Easily Fixing Depreciation Errors Can Save Thousands in Taxes

Depreciation is such a valuable tax deduction because unlike most deductions, it doesn't cost you a penny more than what you've already spent in order to reap the benefits. In fact, you don't have to spend anything in the current tax year to claim it (i.e., you could finance the purchase that you are depreciating).

If you simply didn't claim depreciation on an asset, didn't know you could take depreciation, or just flat out claimed thewrong depreciation, correcting depreciation could potentially save you thousands of dollars on this year's taxreturn.

Here's some good news on this error: First, you don't have to pay the IRS user fees (which can vary from around $2,000 to $10,000), because your depreciation change is going to qualify as an automatic change that's not subject to user fees.

Second, because you failed to claim your correct depreciation in prior years, you are going to have what's called a negative Section 481(a) adjustment (negative for the government, but positive for you) equal to the total amount of your missed depreciation. This means you will take all the missed depreciation in one lump sum in the tax year when you make your automatic accounting change.

Third, with a bit of tax planning as to the year you make the automatic change, you can ensure you realize the best possible tax benefits from your missed depreciation.

To make this change, an eight-page IRS Form 3115 and a one-to-two-page Section 481(a) adjustment worksheet attachment must be filled out, in which the dollar adjustment is calculated and you answer some questions for the IRS about the depreciation adjustment.

One copy of the Form 3115 is then attached, along with the Section 481(a) worksheet, to your tax return and a duplicate copy is made to file with another office of the IRS.

With some planning, this missed deduction can turn into your good fortune.

Big Deductions for Temporary Work Assignment

You may already know you can deduct your away-from-home overnight travel expenses.

But what tax rules do you need to know if you want to travel, or need to travel, to an out-of-town business location for an extended period?

First, your travel to and expenses of living in this out-of-town location are deductible only if this is a temporary work location, which the IRS defines as a location where you expect to spend less than one year.

Second, you have to travel away from your tax home. Your tax home is not your personal home. Your tax home is the location of your principal place of business.

You can run into these rules when you create a second business location in a second state.

For example, a business owner who has an operation in Wisconsin creates a second business location in Florida. One of the two locations is going to be the principal place of business. Traveling to and living in the second location is going to create tax deductions for travel.

If you meet the requirements listed above, you can deduct all of your out-of-town travel expenses to the extent they were not reimbursed by your employer.

Turning Your Personal Home into a Rental Property

Are you looking to make some cash by turning your home into a rental property? Before you simply convert your home into a rental property, consider one extra step that could add some tax money to your pockets.

The one-extra-step strategy is to create an S corporation and then sell your home to the S corporation, which would then operate as the landlord for the property. With this strategy:

1. You avoid taxes by using the home-sale profit exclusion of up to $250,000 ($500,000 for joint returns).
2. You create an increase in your rental property's depreciable basis that generates an increase in depreciation deductions.