

Newsletter

JULY 2017

Tax-free income

Yes, that's correct, there are some forms of income you receive that may be tax-free. Here is a list of eight common sources of tax-free income.

- 1. Gifts.** Gifts you receive are not taxable income to you. In fact, they are not subject to gift tax to the person giving the gift as long as the gifts received in one year from one person do not exceed \$14,000.
- 2. Rental income.** If you rent your home or vacation cottage for up to 14 days, that rental income does not need to be reported. Homeowners often can earn some tax-free income by renting out a home while a large sporting event (Superbowl or a golf event) is in town.
- 3. Child's income.** Up to the standard deduction amount (\$6,350 in 2017) in earned income (wages) and \$1,050 in unearned income (interest) for children is not taxed. Excess earnings above these amounts could be taxed and \$2,100 in unearned income is taxed at the parent's higher tax rate.
- 4. Roth IRA earnings.** As long as you meet this retirement account type's rules, earnings in a Roth IRA are not taxed.
- 5. Child support revenue.** Income you receive as child support is not deemed to be taxable income. On the other hand alimony received is taxable income.
- 6. Home sales gains.** Up to \$250,000 (\$500,000 for married filing jointly) in gains on the sale of a qualified principal residence is not taxable.
- 7. Scholarships/fellowships.** Money received to cover tuition, fees, and books for degree candidates is generally not taxable.
- 8. Refunds.** Federal refunds (technically you've already accounted for this income) and most state refunds for non-itemizers are also tax-free.

This is by no means a complete list of tax-free income, but it's nice to know that some areas of tax law still benefit taxpayers.

Reap the benefits of hiring your child for the summer

Hiring your children to work in your business can be a win-win situation for everyone. Your kids will earn money, gain real-life experience in the workplace, and learn what you do every day. And you will reap a few tax benefits in the process. The following guidelines will help you determine if the arrangement will work in your situation.

- Make sure your child works a real job that he or she can reasonably handle, no matter how basic or simple. Consider tasks like office filing, packing orders, or customer service.
- Treat your child like any other employee. Expect regular hours and appropriate behavior. If you are lenient with your child, you risk upsetting other employees.

- To avoid questions from the IRS, make sure the pay is reasonable for the duties performed. It's not a bad idea to prepare a written job description for your files. Include a W-2 at year-end.
- Record hours worked just as you would for any employee. If possible, pay your child using the normal payroll system and procedures your other employees use.
- Hiring your children works best if you are a sole proprietor. It has additional tax benefits not available if your business is organized as a C corporation or an S corporation.

If you have questions, give us a call. Together we can determine if hiring your child is the right course of action for your business and your family.

Three actions to save for retirement

If you haven't started saving for retirement or you haven't saved *enough*, here are three actions you can take to put you in a better position during your golden years:

1. Contribute as much as possible every year to a 401(k) pretax retirement plan, up to the \$18,000 maximum, or \$24,000 if you are age 50 or older.
2. Contribute as much as possible to a Traditional or Roth IRA every year, up to the \$5,500 maximum, or \$6,500 if you are age 50 or older.
3. Contribute as much as possible to a health savings account (HSA), which can be used to offset medical expenses, up to \$3,400 a year, or \$4,400 if you are age 55 or older.

If you'd like to review your tax-advantaged retirement strategy, call us to schedule an appointment.

Five home office deduction mistakes

Here are five common mistakes of those who deduct home office expenses.

1. **Not taking it.** Some believe the home office deduction is too complicated, while others believe taking the deduction increases your chance of being audited.
2. **Not exclusive or regular.** The space you use must be used *exclusively* and *regularly* for your business.
 - *Exclusively:* Your home office cannot be used for another purpose.
 - *Regularly:* It should be the primary place for conducting regular business activities, such as record-keeping and ordering.
3. **Mixing up your other work.** If you are an employee for someone else in addition to running your own business, be careful in using your home office to do work for your employer. Generally, IRS rules state you can only use a home office deduction as an employee if your employer doesn't provide you with a local office.
4. **The recapture problem.** When selling your home you will need to account for any home office depreciation. This depreciation recapture rule creates a possible tax liability for many unsuspecting home office users.
5. **Not getting help.** The home office deduction can be tricky, so ask for help, especially if you fall under one of these cases.