Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

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Common Tax Questions

Here are several common tax questions and their answers.

1. Is money earned through Venmo, PayPal, or Cash App taxable?
It depends on why you received the money. Payments from friends for splitting dinner or reimbursing expenses are not taxable. However, money received for selling goods or providing services is generally taxable income and may be reported to the IRS on Form 1099-K.

2. Do I have to pay taxes if I sell items online?
Maybe. Selling personal items for less than you originally paid generally doesn't create taxable income, although the sale may still be reported to the IRS. If you sell items for a profit, the gain is usually taxable and should be reported on your tax return.

3. Can I deduct expenses for working from home?
Employees cannot claim a federal deduction for home office expenses. Self-employed workers may qualify if part of their home is used regularly and exclusively for business purposes. The deduction can include a portion of rent, utilities, insurance, and other eligible costs.

4. Is cryptocurrency taxable?
The IRS treats cryptocurrency as property, not currency. Selling crypto, trading one cryptocurrency for another, or using crypto to purchase goods and services can all create gains or losses that must be reported on your tax return. Even receiving cryptocurrency as payment, mining rewards, staking rewards, or certain promotional incentives may be taxable and must be reported on your return.

5. Is my tip income taxable?
Tips are still considered taxable income and must still be reported. However, under the One Big Beautiful Bill Act, many workers in occupations that customarily receive tips can claim a federal income tax deduction for qualified tip income through 2028. To qualify for the deduction, tips must be reported on Form W-2, Form 1099, or other

approved reporting methods, and the worker must be employed in a qualifying occupation designated by the IRS. The deduction is limited to $25,000 per year and begins phasing out for higher-income taxpayers. Social Security and Medicare taxes still apply.

6. How much of my overtime pay is deductible?

Under the One Big Beautiful Bill Act, workers may deduct the overtime premium portion of qualified overtime pay through 2028. In a typical time-and-a-half situation, only the extra half-time portion is deductible, not the employee's entire overtime paycheck. For example, if you normally earn $20 per hour and are paid $30 per hour for overtime, only the additional $10 premium qualifies. The deduction is capped at $12,500 annually ($25,000 for joint filers) and phases out at higher income levels. Social Security and Medicare taxes still apply.

Please call to schedule a tax planning session so you can be prepared to navigate around any potential tax surprises you may encounter on your 2026 tax return.

A Mid-Year Checklist for Small Business Owners

Here are several areas to consider evaluating before the second half of the year begins.

Financial performance

- ☐ **Revenue and sales goals.** Compare your year-to-date revenue against the goals you set at the beginning of the year. If you're ahead or behind schedule, now is the time to adjust your expectations and strategy.

- ☐ **Profit margins.** Revenue growth doesn't always translate into profitability. Review margins across products and services to identify areas where rising costs may be reducing returns.

- ☐ **Cash flow health.** Cash flow issues can develop even when sales are strong. Evaluate receivables, payables, and cash reserves to ensure your business remains financially flexible.

Employee and team performance

- ☐ **Staffing levels and workforce needs.** Consider whether your current team has the capacity to support business goals through the rest of the year. Growth, turnover, or changing priorities may require adjustments.

- ☐ **Employee engagement and retention.** Mid-year is a good opportunity to gauge morale and identify potential retention concerns. Simple conversations with employees can reveal issues before they become costly problems.

- ☐ **Training and development progress.** Review the skills your team has gained so far this year and identify any gaps that could limit performance. Investing in employee development can improve both productivity and retention.

Customer experience and marketing

- **Customer satisfaction.** Customer reviews, surveys, and support requests can provide valuable insights into the customer experience. Look for recurring themes that may require attention.
- **Customer retention and loyalty.** Acquiring new customers is important, but retaining existing ones is often more profitable. Review repeat purchase rates and customer retention trends to understand long-term customer value.

- **Marketing effectiveness.** Evaluate which marketing activities are generating results and which are falling short. Redirecting resources toward the most effective channels can improve return on investment.

Operations and productivity

- **Operational efficiency.** Examine daily workflows to identify bottlenecks, redundancies, or unnecessary complexity. Small process improvements can create meaningful gains over time.

- **Technology and systems.** Review the tools and systems your business relies on every day. Outdated software, manual processes, or underused technology may be limiting growth and efficiency.

Products and services

- **Product and service performance.** Analyze which offerings are driving revenue, profitability, and customer interest. Mid-year is an ideal time to refine, expand, or retire products and services based on actual performance rather than assumptions.

A mid-year review doesn't need to be complicated. By looking at the right areas now, your business can make practical adjustments, protect momentum, and enter the second half of the year with a clearer sense of where attention is needed most.

Tax-Smart Strategies for Renting Your Home or Vacation Property

Is there a big event coming to your city and you want to escape the mayhem? Think the July 4 holiday in D.C., New Orleans Jazz & Heritage Festival, Lollapalooza music festival in Chicago, or next year's Super Bowl in Northern Calif. Consider a short-term rental of your home and pocket tax-free cash. The proceeds from a personal residence that is rented out 14 days or fewer in a year are nontaxable and aren't reported on your return, no matter the rent charged.

If you own a vacation home, you may have pondered renting it occasionally. **Proceeds from a vacation home rented out 14 days or fewer a year are tax-free**. To qualify for this income tax break, the property must be your personal residence. A dwelling is a personal residence if the owner's annual use exceeds the greater of 14 days or 10% of the days that the home is rented to others at fair market value.

If you rent out the vacation home for more than 14 days in a year…**The rent is taxable**. Your rental expenses can be deducted proportionately to the property's use as a short-term rental. How much you can take is determined by dividing the number of days you rented the home by the combined total days of personal and rental use. The deductions can't exceed your total rental income, which is reported on Schedule E of your 1040 along with rental-related expenses.

What if your vacation rental activity generates a loss? The tax laws prohibit deducting rental losses for a personal residence, but the loss is not gone. It can be carried over and used to offset future rental income. If the vacation home is not a personal residence and you actively participate in the rental activity, you might be able to deduct up to $25,000 of rental losses against your other income. But there's a catch. This $25,000 phases out as modified adjusted gross income exceeds $100,000 and disappears entirely once modified AGI reaches $150,000.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.