Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter - October 2020

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Important Dates & Deadlines to Note

October 15

- Extension deadline for individual and C corporation tax returns

Home Office Deduction Reminders

The home office deduction is available to qualifying self-employed taxpayers, independent contractors and those working in the gig economy. However, the Tax Cuts and Jobs Act suspended the business use of home deduction from 2018 through 2025 for employees. Employees who receive a paycheck or a W-2 exclusively from an employer are not eligible for the deduction, even if they are currently working from home.

Qualifying for a deduction

There are two basic requirements to qualify for the deduction. The taxpayer needs to use a portion of the home exclusively for conducting business on a regular basis and the home must be the taxpayer's principal place of business.

To claim the deduction, a taxpayer must use part of their home for one of the following:

- Exclusively and regularly as a principal place of business for a trade or business
- Exclusively and regularly as a place where patients, clients or customers are met in the normal course of a trade or business
- As a separate structure that's not attached to a home that is used exclusively and regularly in connection with a trade or business
- On a regular basis for storage of inventory or product samples used in a trade or business of selling products at retail or wholesale

The term "home" for purposes of this deduction:

- Includes a house, apartment, condominium, mobile home, boat or similar property
- Includes structures on the property, like an unattached garage, studio, barn or greenhouse

Claiming the deduction

A taxpayer can use either the simplified or regular method to figure the home office deduction.

Using the **simplified method**, qualifying taxpayers use a prescribed rate of $5 per square foot of the portion of the home used for business (up to a maximum of 300 square feet) to figure the business use of home deduction. This method greatly simplifies recordkeeping requirements for taxpayers.

Using the **regular method**, qualifying taxpayers compute the business use of home deduction by dividing expenses of operating the home between personal and business use. Deductible expenses for business use of home normally include the business portion of real estate taxes, mortgage interest, rent, casualty losses, utilities, insurance, depreciation, maintenance, and repairs. In general, a taxpayer may not deduct expenses for the parts of their home not used for business; for example, expenses for lawn care or painting a room not used for business.

Switching Jobs? Here's What to Do with Your 401(k)

If you have a 401(k) from your soon-to-be former employer, you must decide what to do with your retirement account when you leave. Here are your four options:

1) Leave the money in your previous employer's pension plan.
2) Roll over the money to your new employer's pension plan.
3) Roll over the money into an IRA.
4) Take the money and run.

So which of these options should you choose? Here are some things to consider as you think about what to do with your 401(k) account:

- **Keep the borrowing option open.** If you want to borrow money from your employer-sponsored 401(k) account in the future, consider rolling the money into your new employer's 401(k) plan. While you can borrow money out of your 401(k), that option is not allowed with an IRA. And if you leave your 401(k) at a former employer, they often will not let you borrow funds if you are not a current employee.

- **Take the money.** This year may be the best time to make a withdrawal from a retirement account. In a normal year, when you make an early withdrawal from a retirement account, you owe income taxes on the amount of the distribution plus a 10% early withdrawal penalty. In 2020, this 10% penalty has been suspended. So while you'll still pay taxes on the distribution, you may be able to avoid the early withdrawal penalty.

- **Leave it invested.** While it might be tempting to borrow or take an early distribution from your retirement account, you'll also be depleting future earnings intended for your retirement years. So consider whether you truly need the money now to pay for an emergency or if you're ok leaving it in your 401(k) or a rollover IRA.

Whatever you decide, it is always best to transfer the funds directly from one retirement account to another. This direct transfer eliminates the possibility of your fund movement being characterized as a distribution subject to income tax. If in doubt, ask us for help.

How to Build Your Emergency Fund When You Have No Money

This year's pandemic highlights the importance of having enough money set aside in an emergency fund to cover six to nine months of key expenses should you lose your job.

But how do you build an emergency fund if you don't have any extra money? The easiest way to accomplish this is by reducing your expenses. Here are some creative ways to increase your cash flow by cutting your spending.

How much you need
First, determine how much of an emergency fund you need. Identify the essential monthly bills and multiply by the number of months of funds you'll need. At minimum include the following:

- Food
- Housing costs, including rent or mortgage payments
- Medical insurance
- Transportation
- Phone service and other utilities

Ideas to fund your emergency account

- **Temporarily suspend nonessential monthly expenses.** Ditch your $150 cable bill for a $20 streaming service. Cook your meals from scratch instead of purchasing pre-packaged food. Eliminate or re-think your entertainment spending. Until you get your emergency fund fully funded, consider less expensive alternatives for items you normally purchase.
- **Radical cutbacks for a set period of time.** Can your family live with one car instead of two? Instead of downsizing from cable to a streaming service, what about getting rid of television subscription fees altogether? Consider if there are areas you'd be willing to make a radical (and temporary) change to free up some cash.
- **Track your spending.** When you go on a diet, nutritionists often recommend counting calories. When going on a spending diet, consider tracking your purchases. You will quickly see items that are not essential. Spending at coffee shops, paying for multiple streaming services and paying for extra cell phone services are just a few examples. You may discover problem areas you didn't know about once you start writing down your spending in a notebook or on a spreadsheet.
- **Stick to a shopping list.** Avoid impulse purchases by making a list of items you need to purchase, then sticking to the list. At the beginning of every month, write down the household items you need to purchase that month and do your best not to deviate from it. You can use this strategy with both in-person and online shopping. Remember, merchants are scientists when it comes to tempting you with impulse purchases.

You may need to get creative with your approach, but finding the money to build your emergency fund is essential, now more than ever.

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