



AN INTRO TO

Profit or Loss From Business

An introductory guide to reducing taxes and how to succeed at it.

STRATEGY 1

How To Get Healthcare Costs For Your Entire Family Deducted By Hiring Your Spouse By Using This One-Simple Form. (105-Health Reimbursement Arrangement)

Strategy 1

Form 1040 / Line 14

E Business address (including suite or room no.) ▶ 477 MADISON AVENUE 6TH FLOOR
 City, town or post office, state, and ZIP code NEW YORK, NY 10022

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶ _____

G Did you "materially participate" in the operation of this business during 2021? If "No," see instructions for limit on losses . . . Yes No

H If you started or acquired this business during 2021, check here . . .

I Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions . . . Yes No

J If "Yes," did you or will you file required Form(s) 1099? . . . Yes No

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	1	
2	Returns and allowances		2	
3	Subtract line 2 from line 1		3	
4	Cost of goods sold (from line 42)		4	
5	Gross profit. Subtract line 4 from line 3		5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6	
7	Gross income. Add lines 5 and 6		7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	strategy 3
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14	strategy 1 strategy 7	22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
				b	Deductible meals (see instructions)	24b	
				25	Utilities	25	
				26	Wages (less employment credits)	26	strategy 2

How and Why does this work for Jane?

By covering your spouse/employee with family coverage, you as the business owner and your spouse get medical coverage.

The 105-Health Reimbursement Agreement gives you the best possible medical reimbursement plan. The first requirement is to have one employee only. The second requirement is to operate the business as one of the following:

- Sole Proprietor reporting on Schedule C
- Partnership reporting on Schedule C
- Real Estate rental business reporting on Schedule E
- C-Corp filing Form 1120

Example. Jane's business pays medical coverage (health insurance, co-pays, other medical expenses not covered by insurance) of \$22,000 per year for her employee/spouse. Jane is now able to deduct \$22,000 as a business expense from her company, which decreases her net profit and lowers her personal tax liability. If Jane is in the 25% tax bracket, with the 105-HRA, Jane can save a total of \$10,626 in taxes (self-employment, fed & state) this year and likely a similar amount every year she is in business.

STRATEGY 2

Hire Your Kids to Work in Your LLC or Sole Proprietorship and Put Their Pay Back in Your Pocket

Strategy 2

Form 1040 / Line 26

- G** Did you “materially participate” in the operation of this business during 2021? If “No,” see instructions for limit on losses
- H** If you started or acquired this business during 2021, check here
- I** Did you make any payments in 2021 that would require you to file Form(s) 1099? See instructions
- J** If “Yes,” did you or will you file required Form(s) 1099?

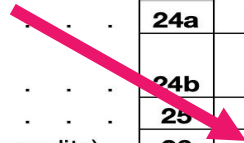
Part I Income

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2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6 <input type="checkbox"/>	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	strategy 3
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15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
				26	Wages (less employment credits)	26	strategy 2
				27a	Other expenses (from line 48)	27a	
				b	Reserved for future use	27b	

28	Total expenses before expenses for business use of home. Add lines 8 through 27a <input type="checkbox"/>	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____ . Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30	strategy 4



Tax Breaks for Family Members

If you operate a qualifying LLC or a sole proprietorship, you get a break on payroll taxes when you hire family members, the IRS gives you a break on these payroll taxes, depending on your relation to the employee:

- under the age of 21, you don't pay unemployment taxes.
- under the age of 18, you don't pay any payroll taxes (Social Security, Medicare, or unemployment taxes). Your kids do not have to pay FICA or Medicare taxes on their wages either.
- Spouses & parents, you don't pay unemployment taxes. However, their wages are subject to FICA and Medicare taxes.

Example

You operate a single member LLC and hire your 12yr old daughter to work in your office during the summer, paying her a total of \$8,000 for her work. You deduct the \$8,000 of compensation as a business expense, and you and her pay nothing in payroll taxes. If you are in the 28%tax bracket, this gives you a savings of \$3,212.

STRATEGY 3

Reduce Self-Employment Taxes by Renting From Your Spouse

Strategy 3

Form 1040 / Line 20b

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6 <input type="checkbox"/>	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
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14	Employee benefit programs (other than on line 19)	14	strategy 1 strategy 7	22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a <input type="checkbox"/>	28		26	Wages (less employment credits)	26	strategy 2
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	
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How the Strategy Works

If you own the building or other asset, a rental agreement with your spouse could significantly cut your self-employment taxes by enabling you to move income from the schedule C onto the Schedule E, thereby reducing your self-employment tax. Schedule E, unlike Schedule C, does not increase self-employment taxes.

If you operate a sole proprietorship and you earn \$100,000 of net income. You must report your income on Schedule C of your tax return, which creates a self-employment tax liability of \$14,129.55.

Here's how the rental strategy can help. You give the office building to your spouse, who then rents the office space back to you. To do this, you must have a valid non-tax purpose for the transaction, as we explain later.

You pay your spouse \$2,000 rent each month (the fair rental value of the building), which moves \$24,000 off the Schedule C and onto Schedule E.

Schedule E, unlike Schedule C, does not give rise to self-employment taxes.

Thus, this strategy reduces your self-employment income by \$24,000, which puts an extra \$3,391.09 of cash in your pocket at the end of the year.

- You co-own the property with your spouse OR
- Your spouse owns 100% of the property

When your spouse owns 100% of the property, you deduct 100% of the rent payments and therefore increase your tax savings.

Note. There are no gift tax, estate tax, or income tax consequences when you give property to your spouse. However, keep in mind that giving your spouse full ownership of your business property may have consequences outside of tax, such as in a divorce proceeding.

Community Property States

In community property states, you, and your spouse each own a 50 percent share of most types of property you acquire during the marriage, regardless of whose name appears on the title.

If you live in one of the community property states, you must take extra steps to give your spouse 100% ownership of any asset.

The community property states are Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

The Right Business Purpose

What is a good business purpose for renting your office from a separate entity? Limited liability.

Many business owners put their real estate in a separate LLC for liability protection

You must respect all the formalities of the lease contract that you enter with your spouse. You must treat the lease as if you were renting from an unrelated landlord, and your spouse must act as if he or she is the owner of the property.

Here is a list of tips to follow:

1. Find the fair rental value of the property and pay no more or less than this amount, considering your ownership in the property. For example, if you own 50 percent of the property, pay your spouse 50 percent of the fair rental value.
2. Create a written lease appropriate for a commercial lease. You can find lease templates online.
3. Make actual payments to your spouse.
4. Your spouse should deposit the funds into a separate checking account for the rental property.
5. Your spouse should pay all expenses and debts relating to the property. (If you have an ownership stake in the property, you pay your share of the expenses and debts.)
6. Give your spouse a Form 1099-MISC for the rent that you paid during the year.

STRATEGY 4

Home-Office Tax Deduction

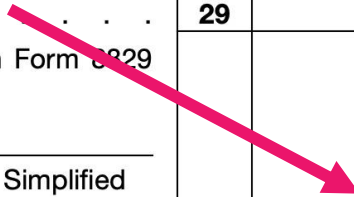
Strategy 4

Form 1040 / Line 30

5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6 ▶	7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
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15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a ▶	28		26	Wages (less employment credits)	26	strategy 2
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions. Simplified method filers only: Enter the total square footage of (a) your home: _____ and (b) the part of your home used for business: _____. Use the Simplified Method Worksheet in the instructions to figure the amount to enter on line 30	30		27b	Reserved for future use	27b	



The home office deduction allows you to convert a portion of your non-deductible personal expenses, such as utilities & insurance, into deductible business expenses and to depreciate a portion of your home as business property. Having another office outside the home does not preclude you from claiming the home office. In fact, if the home office is the principal place of business (where you conduct administrative duties), the mileage driven between the offices transforms from non-deductible commuting miles to deductible business mileage.

Situation

Jackie Smith works 50hrs a week at her Daycare located uptown. She also spends 12hrs a week working at home doing all the administrative tasks required for her Daycare business.

QUESTION: Can Jackie claim tax deductions for any of these two offices?

ANSWER: Jackie can claim deductions for both.

STRATEGY 5

Turning Your Vacation Into Tax Deductible Business Travel

Strategy 5

Form 1040 / Line 24a

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked	<input type="checkbox"/>	1	
2	Returns and allowances		2	
3	Subtract line 2 from line 1		3	
4	Cost of goods sold (from line 42)		4	
5	Gross profit. Subtract line 4 from line 3		5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)		6	
7	Gross income. Add lines 5 and 6		7	

Part II Expenses. Enter expenses for business use of your home **only** on line 30.

8	Advertising	8		18	Office expense (see instructions)	18	
9	Car and truck expenses (see instructions)	9		19	Pension and profit-sharing plans	19	
10	Commissions and fees	10		20	Rent or lease (see instructions):		
11	Contract labor (see instructions)	11		a	Vehicles, machinery, and equipment	20a	
12	Depletion	12		b	Other business property	20b	strategy 3
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13		21	Repairs and maintenance	21	
14	Employee benefit programs (other than on line 19)	14	strategy 1 strategy 7	22	Supplies (not included in Part III)	22	
15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a			26	Wages (less employment credits)	26	strategy 2
29	Tentative profit or (loss). Subtract line 28 from line 7			27a	Other expenses (from line 48)	27a	
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				28		28	
				29		29	
				30		30	strategy 4

If you travel to a destination within the USA for business purposes, and you spend most of your trip days on business, you can deduct 100% of your direct route transportation expenses; you may also deduct meals & lodging for business days as well.

Estimated tax tip savings: *When you convert your vacation into a business trip, your transportation expenses suddenly become deductible. Consider that \$1,200 business-class plane ticket back home to see your parents—with the right tax planning, you can deduct 100% of the cost. However, if most of your days are personal days, you get zero deductions.*

Isn't it about time you took a vacation?

Maybe you don't think you have the time or the extra cash?

You could solve both the time and cash problems when you make the vacation a business trip and deduct your travel expenses.

What kind of travel are we talking about? In general, business travel can be about as luxurious as you can dream up! For example, all of the following can qualify as deductible business travel expenses:

- Airfare, including first-class tickets
- The Presidential Suite in your favorite hotel
- Rental car expenses for a Rolls-Royce
- Boat tickets—and yes, this includes cruise

The Basic Rule on Business Travel

According to the tax code, you can deduct your travel expenses if your trip is an “ordinary and necessary” cost of doing business. The courts have interpreted this rule extremely broadly. As a result of this broad interpretation, the tax code rule isn't very helpful unless you know more.

To get the real story on business purpose, you must sift through case law and see what the courts say in particular cases—which we do for you beginning with the next section.

The Real Test

When courts decide business purpose cases, they consider all the relevant “facts and circumstances,” which for our purposes means we must compare each case to find the overarching, guiding principles we can use in practice.

We have summarized the case law into five rules that you can use to justify a business purpose for your trip:

1. **Profit motive.** You need to have a reason why the trip will help your business make money. You don’t have to show an immediate profit, but you must expect the trip to create profit for you at some point in the future. Write this reason down in your records.
2. **Stay overnight.** Remember the overnight rule. You get deductions only for business trips on which you stay overnight away from your tax home.⁶
3. **Apply the “for only” test.** When you plan your trip, ask yourself whether a rational businessperson would travel for only the business reason—or is the personal element so important that the trip does not make sense without it?
4. **Primary purpose test.** For travel in the United States, you need to pass the primary purpose test. The easy way to do this is to make most of your days business days. For tips on how to identify business days and personal days.
5. **Maintain good records.** This may be the most important step for your business travel deductions. You must keep the right records, as we explain below.

STRATEGY 6

How to Travel to Exotic Locations Using the Seven-Day Travel Rule

Strategy 6

Form 1040 / Line 24a

J If "Yes," did you or will you file required Form(s) 1099?

Part I Income			
1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
7	Gross income. Add lines 5 and 6	7	

Part II Expenses. Enter expenses for business use of your home only on line 30.			
8	Advertising	8	
9	Car and truck expenses (see instructions)	9	
10	Commissions and fees	10	
11	Contract labor (see instructions)	11	
12	Depletion	12	
13	Depreciation and section 179 expense deduction (not included in Part III) (see instructions)	13	
14	Employee benefit programs (other than on line 19)	14	strategy 1 strategy 7
15	Insurance (other than health)	15	
16	Interest (see instructions):		
a	Mortgage (paid to banks, etc.)	16a	
b	Other	16b	
17	Legal and professional services	17	
18	Office expense (see instructions)	18	
19	Pension and profit-sharing plans	19	
20	Rent or lease (see instructions):		
a	Vehicles, machinery, and equipment	20a	
b	Other business property	20b	strategy 3
21	Repairs and maintenance	21	
22	Supplies (not included in Part III)	22	
23	Taxes and licenses	23	
24	Travel and meals:		
a	Travel	24a	strategy 5 strategy 6
b	Deductible meals (see instructions)	24b	
25	Utilities	25	
26	Wages (less employment credits)	26	strategy 2
27a	Other expenses (from line 48)	27a	
b	Reserved for future use	27b	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a	28	
29	Tentative profit or (loss). Subtract line 28 from line 7	29	
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Exceptions

Under Section 274(c)(2)(A), the general rule does not apply to any travel outside the United States when such travel does not exceed one week. This is the first of the two exceptions, and it is this exception that is the subject of this strategy. But so that you are not left in the dark as to the second exception, here it is: Under Section 274(c)(2)(B), the general rule does not apply to expenses of travel outside the United States when that portion of time not attributable to the pursuit of the taxpayer's trade or business is less than 25% of the total time on such travel.

IRS Regulations

For purposes of the one-week rule, one week means seven consecutive days. In identifying the seven consecutive days:

- You don't consider the day in which travel outside the United States away from home begins.
- But you do consider the day in you return.

Example. You depart on travel outside the United States away from home on a Wednesday morning and end such travel the following Wednesday evening. In this example, the IRS deems that you traveled outside the United States away from home for seven consecutive days only.

If you travel outside of the US for business purposes for fewer than 7 days, you may deduct 100% of your transportation cost of getting to and from your foreign business destination – even if you work only one day. You may deduct meals and lodging for business days as well.

Don't you just love the seven-day travel rule.

Let's examine how you can deduct your personal fun when you travel using the seven-day business travel rule.

Tax Rule

Under Section 274(c)(1), when you travel outside the United States away from home in pursuit of your business, you may deduct only the expenses allocable to the pursuit of business. That's the general rule. But there are two exceptions.

STRATEGY 7

Create Tax-Free Fringe Benefits Deductions for Your Smartphone

Strategy 7

Form 1040 / Line 14

Part I Income

1	Gross receipts or sales. See instructions for line 1 and check the box if this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked <input type="checkbox"/>	1	
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	
4	Cost of goods sold (from line 42)	4	
5	Gross profit. Subtract line 4 from line 3	5	
6	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	6	
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Part II Expenses. Enter expenses for business use of your home **only** on line 30.

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10	Commissions and fees	10		20	Rent or lease (see instructions):		
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15	Insurance (other than health)	15		23	Taxes and licenses	23	
16	Interest (see instructions):			24	Travel and meals:		
a	Mortgage (paid to banks, etc.)	16a		a	Travel	24a	strategy 5 strategy 6
b	Other	16b		b	Deductible meals (see instructions)	24b	
17	Legal and professional services	17		25	Utilities	25	
28	Total expenses before expenses for business use of home. Add lines 8 through 27a <input type="checkbox"/>	28		26	Wages (less employment credits)	26	strategy 2
29	Tentative profit or (loss). Subtract line 28 from line 7	29		27a	Other expenses (from line 48)	27a	
30	Expenses for business use of your home. Do not report these expenses elsewhere. Attach Form 8829 unless using the simplified method. See instructions.			b	Reserved for future use	27b	

Simplified method filers only: Enter the total square footage of (a) your home: _____

part of your home used for business: _____ . Use the Simplified

Worksheet in the instructions to figure the amount to enter on line 30

30 strategy 4

When a sole proprietorship provides an employee (spouse, child, or independent contractor) with a smartphone or similar equipment (iPad, tablet, etc.) primarily for non-compensatory reasons, it is considered a working condition fringe benefit that is excludable from income. The business can reimburse the employee for the full cost of the phone expenses (including personal use) and deduct this amount. The reimbursement is tax-free income to the employee. And depending on how you operate your business, you can achieve the tax benefits without keeping any tax records on your smartphone usage.

Who is an Employee, and Why Ask?

The definition of an “employee,” for working condition fringe benefit purposes such as this smartphone benefit, is broader than you would think, and includes:

- your current employees (this includes you if you are an employee of your corporation),
- partners in your partnership performing services for your partnership
- directors (if you operate as a corporation), and

independent contractors performing services for you.

How the Smartphone Tax Break Works

When a business provides an employee or a partner with a smartphone or similar telecommunications equipment primarily for non-compensatory business reasons, the following great things happen:

1. The employee's or partner's business use is a working condition fringe benefit that is excludable from income.
2. The employee's or partner's personal use is excludable from income as a de minimis fringe benefit.
3. The employee or partner does not have to keep records of business use.
4. The tax code nondiscrimination requirements do not apply. This means the business can pick and choose who gets the smartphone benefits. (This could be you only.)

To qualify for this tax-favored treatment, the business must grant this smartphone benefit to the employee or partner primarily for “non-compensatory business purposes” such as the following (and you are going to love these):

1. The employer needs to be able to always contact the employee in case of work-related emergencies.
2. The employer requires that the employee be available to speak with clients when away from the office.
3. The employee needs to speak with clients located in other time zones at times outside of the employee’s normal workday.

If you operate your business as a corporation or partnership, you should have no problem satisfying one or more of the three criteria above.

Beware. Your business does not meet the non-compensatory test if it offers the smartphone to:

- promote goodwill
- attract a prospective employee

provide additional compensation to an employee



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