

# ACCURATE BOOKKEEPING & ACCOUNTING

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Tax Tips

Dear Business Owners & Interested Parties,

It's getting down to crunch time here in tax season. I've decided to go strictly with tax tips for that reason. If they are no longer relevant for your 2007 tax year, perhaps they will be for planning your 2008 year.

### Personal Tax Tips:

When itemizing medical and dental deductions, remember to include payments made for non-reimbursed health insurance payments. When you pay into your spouse, dependent, or your own health care, it is deductible. Medical expenses are when "paid," not billed. They are also subject to the 7.5% AGI limitation (i.e. only the portion that exceeds 7.5% of your AGI is deductible). In today's healthcare world, it won't take much. Eye care, long-term care, stop-smoking and some weight loss programs are also eligible. Only prescription medicines are eligible, though your physician can add certain over-the-counter meds if put in writing. Ask your tax professional for other possible medical deductions.

If you have taken classes to help in your current line, you may be eligible for an education credit. Tuition, most fees and materials which can only be purchased through the program are eligible.

Keep your home improvement receipts. If work done materially lengthens the life or increases the value of your home, it is a capital improvement and should be added to the cost basis of your home. Repairs are non-capital improvements. As an example, if you *repair* your roof, it is an expense of home ownership and is simply out of pocket. If you *replace* the roof, it materially increases the lifetime of your asset and can be added to the basis.

### Business Tax Tip:

When differentiating between treating someone as an employee or as an independent contractor, the IRS uses what is known as "common-law rules." These are behavioral control, financial control, and the relationship between the parties. In general, an independent contractor has control over when, where and how his work is done, he sets his own hours, and is paid on commission or by the job. This does not mean you cannot set certain criteria when requesting services. An example would be the homebuilding industry. If your client requires a wood floor installed on a certain day at 7 AM, using certain materials and dressed in an appropriate manner, it can still be as an independent contractor. The reason is that the entity which is ultimately paying for the job (builder/homeowner) would require the same set of parameters if they were to contract directly.

One other test they look at for independent contractor status is the exclusivity of who they work for. As long as exclusive employment is not a requirement, the independent contractor status still holds up. Many independent contractors will, at times, work both for multiple entities or single entities depending on their own needs and profit motive.

As sole proprietors, keep an eye on several commonly taken, though legally non-deductible expenses. These include charitable contributions (deductible on schedule A only), clubs (such as health, sports, luncheon, athletic), political contributions (from a tax standpoint, can only make you enemies), penalties or fines which are paid to a government entity due to breaking the law, or repairs that substantially add value to your property. Those should be capitalized and depreciated accordingly, though using a \$250 or \$500 base limit is common.

Accounting Definition:

Budget: An orderly system for living beyond your means.

Until next month, good business!

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