

# TAX PLANNING & PREPARATION GUIDE

## CAN YOU DEDUCT WORKING AT HOME EXPENSES DURING THE PANDEMIC? IT DEPENDS.

By Michele D. Burkins,  
Herbein + Company, Inc.

If you found yourself working at home as a result of the “stay-at-home” coronavirus orders, you may be wondering if you will be able to take the Home Office Deduction on your individual tax return now that you have joined the telecommuting ranks.

As is often the case with tax questions, the answer is: “It depends.”

### Background – Old rules and recent tax law changes

Prior to passage of the tax reform bill known as the *Tax Cuts and Jobs Act of 2017* (TCJA), employees could deduct certain home office expenses on their individual tax returns on Schedule A as miscellaneous itemized deductions. However, miscellaneous itemized deductions were limited. Taxpayers could only take the deduction if

these deductions exceeded two percent of their adjusted gross income. In addition, if the standard deduction was greater than a taxpayer’s total itemized deductions, the taxpayer simply took the standard deduction and no benefit was received from itemizable deductions including home office expenses.

TCJA eliminated the “two percent miscellaneous itemized deductions” category on Schedule A beginning in 2018, thereby eliminating the home office deduction for many taxpayers. Although miscellaneous itemized deductions were removed from Schedule A, the trade-off was that the standard deduction amount nearly doubled with the result being that a greater number of taxpayers no longer itemize their deductions. Instead, they simply claim the higher standard deduction.

However, under the TCJA, taxpayers who met certain requirements will still be eligible for a home office deduction as described below.

### Home Office Deduction Rules – General rules and benefits for self-employed individuals

Converting your dining room table into your home office is not enough to claim that you now have a home office for tax purposes. In order to take a home office deduction, a taxpayer must meet certain qualifications. Generally, only self-employed taxpayers may claim the home office deduction from 2018-2025. After 2025, certain provisions of TCJA are scheduled to expire.

Under Code § 280A, in order to claim the deduction, a taxpayer must use the space exclusively and regularly –

- As a principal place of business,
- As a place to meet or deal with clients and customers in the normal course of business, or
- “in connection with” the business if the space is a separate structure from the residence, such as a garage or barn.

In the case of an employee, the home office must be set up for the convenience of the employer, not the convenience of the

employee. If set up for the convenience of the employer, the employer may reimburse the employee for the costs associated with the home office, but the employee is not eligible for the home office deduction on their individual tax return.

For self-employed taxpayers who meet the home office rules, they can claim the deduction on Form 8829, Expenses for Business Use of Your Home. The deduction will then flow through as a deduction against their self-employed income on Schedule C, Profit or Loss from Business, on their Form 1040.

### Possible Alternative for the Telecommuting Employee – Employer expense reimbursement

Many taxpayers who have been working at home are employees who receive a W-2 and are not considered self-employed workers. In consideration for an employee no longer being able to deduct home office expenses on Schedule A, a



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taxpayer can negotiate with their employer to have them reimburse them for any expenses they incur as a result of working at home.

Under Code § 139, employers may make tax-free qualified disaster relief payments to workers for amounts to cover reasonable and necessary expenses, including personal, family, living or funeral expenses. Because the coronavirus (COVID-19) is a federally declared disaster, employers may make qualified disaster relief payments to workers. The payments may be used to cover expenses such as masks and personal protective equipment, dependent care, unreimbursed medical expenses, or work from home expenses such as the cost of installing or upgrading a high-speed internet, a personal computer, a printer, or supplies. Qualified disaster relief payments do not require an accountable plan like other expense reimbursements. The payments are tax-free to employees, but fully deductible to the employer.

Even though the federal government may allow such expenses, there is no

obligation on the part of the employer to reimburse their employees. Some states, such as California, require employers to reimburse employees for all necessary expenditures that an employee occurs in order to perform their duties. However, many states do not have similar requirements.

Pennsylvania allows an employee to deduct expenses from their home office only when the job requires an employee to have a suitable work area, the employer does not provide a suitable work area, and the office at home is the principal place of work.

### Conclusion

Most employees will not be able to deduct home office expenses on their individual tax returns. Their best alternative is to request that their employer reimburse them for the expenses they incur as a result of setting up an office at home.

For additional information, contact us at [info@herbein.com](mailto:info@herbein.com).

*Article contributed by Michele D. Burkins.*



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## AdminService

AdminService was initially founded in 2000 by Claus Sproll with the concept of supporting local and spiritually oriented organizations in the community and assisting local non-profit organizations and small companies with administrative and bookkeeping tasks, while staying true to the mission of that particular organization or company. After all, it's these time-consuming tasks that tend to divert owners from their big-picture goal, yet without completing them, can be a business' downfall. Business Development and planning was the main service provided for organizations and companies during the early years.

What started with consulting eventually evolved into the broader services of today when Pamela Benton joined in 2006 with her business, non-profit and accounting expertise. Proving that two heads are better than one, the duo quickly became an effective partnership. Through time, they formed lasting relationships with local businesses and non-profits, and by 2013, Pamela became co-owner. In 2020, she assumed ownership. The stock repurchase that made this possible is an innovative form of ownership that allows employees to participate in the success of the company. AdminService is now a women-owned and operated company, with Claus still heavily involved in the role of Founder and Director of Corporate Integrity.

Over the years, AdminService has grown steadily and organically to a dedicated team of over fifteen full and part-time employees. Through careful planning and forward-thinking, the

company has developed a strong culture of care for the people within the various organizations that it serves, mainly throughout Chester and Montgomery counties. With the onset of tools to support 'virtually' and remotely the company developed systems to offer bookkeeping and accounting in a virtual environment. This also allowed the company to offer part time employment to people needing to stay home or care for family during the COVID crisis. The multitude of additional services AdminService provides through its partners, from fundraising to helping people with disabilities, website building and marketing support, have since been added to its core competencies. Needless to say, AdminService's priority has been and always will be to put the people first.

A growing component of AdminService is the remote support it provides to mid-sized companies across the country, more commonly referred to as the 'Virtual Office' support. Whether near or far, AdminService provides a service to its clients where they can now receive remote help to assist with administrative tasks, scheduling appointments, responding to customers, developing marketing materials, plus many other services to make sure their client's organizations and businesses grow and thrive now and into the future.

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## Spring into Tax Day

By Sheila Nester,  
Sheila Nester & Associates, P.C.

Don't think of April 15th as a day of sorrow, an awful day, or a demanding stressful task in that of attacking your dreadful tax return preparation. Think of it as a few moments closer to the warm sunny days of spring and welcome the pretty blooms and sweet smells that permeate the air. Preparing is half the battle when it comes to reconciling income and taxes at year end; so just as you prepare the soil for a beautiful flower or vegetable garden, be prepared throughout the year for what the results of this day may bring.

Tax law changes hit every taxpayer each year. The effects of the changes bring both negative and positive outcomes. In preparing for the tax filing season each year, changes should have been made in order to lessen the tax burden or even the adverse. Some of the changes should have been visiting

the HR department to adjust the current filing status for payroll purposes, increasing contributions to retirement programs for a higher pre-tax deduction, or at the very least if no other options exist, make those estimated quarterly tax payments to lessen the liability to be paid by April 15th.

Get busy gathering documents and making lists to be prepared for tax appointments or for self-prepared returns. Work hard to accumulate every document and don't leave any applicable deduction untaken. The days are cold, and the nights are colder, so sit by the fire and get organized. The deadline will feel less like a deadline if you are prepared and aware.

If the thoughts overwhelm you, we are happy to help. Our staff is well trained to handle any and all of your tax preparation needs and questions you may have. Call 610.367.9372 to set up your tax appointment!

## Local, Small CPA Firm with Big Firm Capabilities

Barbara Akins, CPA, located in Bechtelsville PA, is a team of four with sixty years of combined public accounting experience. The firm has been helping businesses, individuals, municipalities, and nonprofit organizations in the areas of tax return preparation, accounting assistance, audits and reviews, and business valuations. Whether you are an individual or represent an LLC, partnership, nonprofit, or corporate entity, you can rely on the Team at Barbara Akins, CPA for tax return preparation services. The firm prepares federal tax returns, as well as tax returns for any state and local municipality in the U.S.

The firm realizes your business is unique and accurate record keeping can be complicated and time-consuming. The firm assists with general ledger and financial statement preparation, bookkeeping, accounting system setup and

support (such as QuickBooks), and payroll assistance and support so you can focus on running your business.

Barbara Akins, CPA performs high-quality audit work with competence, integrity, objectivity, and independence to provide accountability for municipalities, and nonprofit organizations. Audits also provide the Team with an opportunity to help improve the organizations they work with. The audit promotes an open discussion with clients of areas of possible risk and what steps can be done to help make the organization stronger. The firm also provides comprehensive reviews to ensure the accuracy of your financial statements.

If you are looking for Relationships, Service and Integrity from your accountant, please contact Barbara Akins, CPA at 484.321.3839 and visit [www.AkinsAccounting.com](http://www.AkinsAccounting.com).





## Highlights of the New COVID Relief Bill

Provided by **Barbara Akins, CPA**

In case you were **not** planning to read the almost 5,600 pages of the NEW Covid Relief Bill here are some of the highlights:

- Additional round of **Economic Impact Payments (EIP)** include Direct Payments \$600 per eligible family member (includes dependent children under 17 years old). The amount of the payments start to phaseout for single filers earning more than \$75,000; married filing joint earning more than \$150,000 and \$112,500 for heads of household. *If the credit determined on the 2020 tax return exceeds the amount of the advanced payment, the taxpayer will receive the difference as a refundable tax credit. Taxpayers who receive an advanced payment that exceeds the credit do not need to repay the amount.*

- **Unemployment Insurance** includes an additional \$300 per week for all workers receiving unemployment benefits from December 26, 2020 to March 14, 2021. It extends the PUA (covering self-employed) from 39 weeks to 50 weeks – with benefits ending April 5, 2021.

- Paycheck Protection Program (PPP) Loans are now allowed to deduct expenses associated with their forgiven PPP loans. Small businesses (with less than 300 employees) can receive a 2nd PPP loan if they can demonstrate a revenue reduction of 25%. The new bill also created a simplified PPP loan forgiveness application for loans <\$150,000. Borrower signs a 1 page certification for # of employees retained and estimated amount of loan spent on payroll costs. Borrowers are not required to deduct their EIDL Advance from their PPP loan forgiveness amount.

- If you received an **Economic Injury Disaster Loan (EIDL) Advance Grant** less than \$10,000, you can reapply for the difference you received up to the \$10,000 maximum amount.

- Lookback for **Earned Income Credit and Child Tax Credit** will help

workers who experienced lower wages this year to get a larger refund that is consistent with their earnings from prior tax filing seasons by using their earned income from tax year 2019 to determine the Earned Income Tax Credit and the refundable portion of the Child Tax Credit (Additional Child Tax Credit) in 2020.

- A **100% Deduction for Business Meals & Beverage** provided by a restaurant that are paid or incurred in 2021 and 2022. *The deduction is 50% for 2020.*

- An increase to **\$600 non-itemizer Charitable Deductions** for cash donations for married filing jointly for 2021. *The deduction is \$300 in 2020.*

- **No AGI limit for Cash Charitable Contributions** in 2020 and 2021. *Previously cash charitable contributions were limited to 60% of AGI.*

- **Extension on Federal Student Loans** interest and principal payments until April 1, 2021.

- The exclusion from gross income of **discharge of qualified principal residence debt** has been extended through 2025.

- You cannot deduct the interest for **acquisition debt greater than \$750,000** through 2025.

- **Mortgage insurance premiums** qualify as residence interest through 2021.

- The **Nonbusiness Energy Property Credit** for qualified energy improvements to a principal residence is through 2021.



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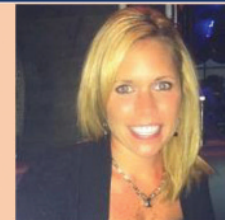


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## Behind Exciting Long-Term Business Growth is a Boring Bookkeeper...

By **Beth Breslow, Breslow's Bookkeeping Business**



The end of the year is a busy time for many reasons. Holidays, travel plans, and family visits consume most of our days starting in November through January 1. But as a small business owner, there is even more you have to handle at the end of the year.

Right now is the time of year when your business really needs your attention, especially in regards to accounting. Doing so not only helps you close out the current year on a high note, but it also sets you up for starting off the next year on the right foot.

Is your business on par with the following accounting tasks?

**Monthly bank, credit card and loan reconciliations** — For the year-end, it is important to make sure what you show on your financial statements matches up with your bank and credit card accounts and your year-end statements.

**Reconcile your accounts receivable and accounts payable** — There is a tendency to forget to collect on your invoices if you do not use invoicing software. Without a good collection system like Quickbooks, you may be missing out on money you are owed.

**Gather and Organize Your Receipts** — It is important to gather and organize your business-related receipts. A shoebox full of receipts is the last thing your CPA wants to see. There are many apps available to download, which will simplify this.

**Check Payroll** — A few common areas to watch out if you're worried about

end of year accounting are withholding taxes for fringe benefits, deferred compensation, and end of year bonuses.

**Collect W-9s** — Did you use vendors this year? If so, you will have to collect W-9 forms for some of them. The W-9 form can be used as a paper trail for the IRS to track your expenses.

For every vendor that you have spent \$600 or more for services, you are required by law to issue and complete a 1099 form. The 1099 must be filled out and sent to the IRS by January 31st.

**Take Physical Inventory** — For some of you, there is no need to take physical inventory. For others, getting an accurate account of your inventory is important. You will want to match it with your end of year balance sheet. It will also be helpful for your bookkeeper, especially to know how much you have spent on inventory throughout the year and its current value.

If the above-mentioned tasks are a foreign language to you, or if you know that there is not enough time in the day to tackle this checklist, call Breslow's Bookkeeping Business at 215.272.5217 today; email: [bethbreslow@gmail.com](mailto:bethbreslow@gmail.com); and visit [www.breslowbookkeeping.com](http://www.breslowbookkeeping.com).

