



Sole Proprietors

Tax and Business Update

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Health Savings Accounts (HSAs)

HSAs allow tax-favored contributions to accounts used to pay or reimburse qualified medical expenses of individuals covered only by a high deductible health plan (HDHP). Contributions are tax-deductible if made directly by the taxpayer, or excluded from income if paid by an employer. Earnings in HSAs are not taxable, and distributions used to pay qualified medical expenses are not included in income. Amounts in an HSA carry over from year to year. Distributions not used to pay qualified medical expenses are subject to income tax and a 20% penalty tax. *Exception:* The penalty tax does not apply to distributions after the account beneficiary reaches age 65, becomes disabled or dies.

High Deductible Health Plans				
Coverage	Minimum Annual Deductible		Out-of-Pocket Expense Limit ¹	
	2016	2017	2016	2017
Self-only	\$1,300	\$1,300	\$6,550	\$6,550
Family	2,600	2,600	13,100	13,100

¹ Deductibles, copayments and other amounts, but not premiums.

Maximum Contributions ¹		
	2016	2017
Individual coverage	\$3,350	\$3,400
Family coverage	6,750	6,750

¹ Individuals age 55 or older by the end of the year are allowed additional contributions of \$1,000 for 2016 and 2017.

Note: When an individual enrolls in Medicare, contributions may not be made to an HSA.

Employing Family Members

Payroll taxes can significantly reduce business profitability. Paying wages to a family member can be an effective payroll tax reduction strategy for a taxpayer who owns a business.

Family Employees—Employment Tax Treatment			
	Income Tax W/H Required?	FICA	FUTA
Child employed by parent (unincorporated business)	Yes	Exempt if under age 18	Exempt if under age 21
Child employed by parent-owned corporation	Yes	Taxable	Taxable
Parent employed by child (unincorporated business)	Yes	Taxable	Exempt
Spouse employed by spouse (unincorporated business)	Yes	Taxable	Exempt
Child employed by parent for domestic work	No	Exempt if under age 21	Exempt if under age 21

Note: FICA and FUTA exemptions for a child apply only for sole proprietorships and partnerships where the only partners are the child's parents. FUTA exemptions for parents and spouses apply only to sole proprietorships.

Meals, Entertainment and Travel

Providing entertainment to a client, customer or employee can qualify for a tax deduction. Entertainment activities can include the cost of meals (food, beverage, tax, tip). Expenses for transportation, meals and lodging may be deductible for business travel away from the taxpayer's tax home. The following checklist summarizes the deduction rules.

Meals, Entertainment and Travel Expenses Deductibility Checklist	
Type of Expenditure	% Deductible
Meal	
Lavish and extravagant portion	0%
Employee meal: business discussed/not discussed.....	50/0
Customer meal: business discussed/not discussed	50/0
Customer meal while travelling away from home, no business discussed: Customer's meal/Taxpayer's meal	0/50
Employer expense for meal of employee working overtime (if <i>de minimis</i>).....	100
Meal ordered in for staff meeting (if <i>de minimis</i>)	100
Meal for customer and spouse, no one else present.....	0
Transportation to/from restaurant for business meal.....	100
Entertainment	
Ticket price for sporting event associated with business discussion...	50%
Ticket price for sporting event taxpayer doesn't attend	0 ¹
Scalper's premium for tickets	0
Cover charge, taxes and tips.....	50
Club dues (with some exceptions).....	0
Tickets to charitable fundraising sports event	up to 100 ²
Tickets to nonprofit high school or college sports events with paid coaches and referees (associated with business)	50
Transportation to and from business-related entertainment activity	100
¹ Up to \$25 per recipient is deductible as a business gift.	
² Cost in excess of the seat's FMV may be deductible as a charitable contribution.	
Travel Expenses	
Transportation and lodging expenses while away from home on business	100%
Meals alone while working away from home on business.....	50
Transportation, living and attendance expenses for investment seminar	0



Hobby Losses

Losses sustained in an activity classified as a hobby are not deductible. To preserve for-profit status, a proprietor should conduct the activity in a business-like manner. The following suggestions can help keep losses tax deductible.

- Keep thorough and businesslike books.
- Use a separate business checking account and debit and credit cards.
- Record business and personal use of assets in a log book.
- Research market/technology trends of similar businesses.
- Consult with reputable advisors in the field.
- Obtain the insurance, registration, certification, proper license, etc., customarily needed for the type of business.
- Maintain a separate telephone listing.
- Make periodic operations changes to improve the profit-making ability of the business.

Notes

The handout is designed to provide accurate information regarding the subject matter covered. However, before completing any significant transactions based on the information contained herein, please contact us for advice on how the information applies in your specific situation.

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