



**COHEN, SMITH & COMPANY, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS  
133 EAST INDIANA AVENUE  
DELAND, FLORIDA 32724-4329  
(386) 738-3300**

**We are pleased to provide you our online informational newsletter which we believe you will find of interest. Each month brief articles on relevant topics will be included, along with a tax calendar for the current and following months.**

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### **Did You Know?**

A mere 3 percent annual rise in consumer prices would double the cost of everything within 24 years. At that time, you'll need twice as much money as you do today to live as well as you do now.

*Source:* Women's Institute for Financial Education, [www.wife.org](http://www.wife.org)

## **Governor Bush Economic Development Proposals**

In his March 7, 2006 State of the State address Governor Jeb Bush proposed to encourage economic development in the state with a number of tax relief measures including: (1) a permanent 12-day sales tax holiday for hurricane essentials; (2) a permanent 9-day “Back to School” sales tax holiday; (3) the total repeal of both the intangibles tax and the “by the drink” tax; (4) property tax rebates of \$100 each to homeowners and mobile home owners; (5) a 9.1% reduction in required school tax rates; (6) a sales tax exemption for machinery and equipment used in manufacturing, research and development, and the space and defense industries; and (7) the provision of incentives for alternative sources of energy.

## **The Golden Rule for Household Employees**

If you employ household help, including babysitters, home health aides, gardeners, chauffeurs, valets, housecleaners, and others, you already know how important it is to treat them properly. The Golden Rule, treat others as you would like to be treated, always applies. Moreover, if you want to avoid late charges and penalties down the road, you must *also* conduct yourself correctly by paying taxes for these services.

The payments you make to your household employee(s) may give rise to (1) deducting particular types of taxes, (2) remitting certain taxes, and (3) filing appropriate tax returns.

### **When your “help” becomes your “employee”**

Internal Revenue Service (IRS) rules determine whether household workers are actually employees. Factors in making this determination include whether you, as the employer, have control over what work gets done and how that work is effectuated. Examples of this control include your determination of:

- When and where to do the work
- What tools or equipment to use
- What order or sequence to follow
- Where to purchase supplies and services
- What work must be performed by a specific individual
- What workers to hire or to assist with the work

### **Using an Agency**

If you think that hiring household help through an agency precludes characterizing that worker as your employee, and thereby eliminates your obligation to pay employment taxes, you may be mistaken. Under the IRS definition of *household employee*, it may not be relevant that your help was provided to you by an agency, let alone how frequently you pay the person or whether the person works full- or part-time for you. Additional factors may need to be considered to determine if any employer-employee relationship exists.

### **Independent Contractors**

In contrast, the worker will normally not be considered your employee—but rather an independent contractor who works for him- or herself—if that person controls how the work is to be done. These workers typically include contractors, plumbers, repair people, and others. Nevertheless, these workers can also be employed by an agency that contracts and controls what work will be done, and how it will be performed. Under these circumstances, such workers are probably employees of the agency, not you, and the agency pays their employment taxes.

### **The nanny tax**

Clients, often unclear about their obligation to report the income they pay to their domestic employees, sometimes forget to inform their CPAs about their domestic help.

Depending on how much you pay someone in a given year (\$1,500 or more for 2006), you must pay employment taxes. These taxes apply to all your household employees who work in or around your private residence. Such taxes became popularly known as the “nanny tax” when national news stories reported that well-known politicians and others failed to pay employment taxes for their nannies, who also happened to be undocumented aliens.

You should discuss with your employees whether to withhold income taxes for them, because they have the option to do their own withholding. As a household employer, you are required to account for household workers on Form 1040 Schedule H for any year in which they are deemed your employees and, therefore, qualify for either Social Security and Medicare or Federal Unemployment Tax Act (FUTA) withholding. You should pay employment taxes quarterly through estimated payments or by increasing the withholding from paychecks. As an employer, you must also consider the various legal ramifications of having employees, including the immigration status of your workers and worker’s compensation insurance.

### **Unemployment tax**

If you pay a household worker \$1,000 or more for any quarter, you are required to pay FUTA. You are also responsible for paying Florida unemployment tax. Please note that the federal tax rate may be significantly decreased if you have made all required payments into your state's unemployment fund.

### **Social Security and Medicare**

Workers under the age of 18 are exempt from Social Security and Medicare taxes that arise from wages paid for household employment, with certain exceptions. These taxes also do not generally apply to wages paid to a household employee if that employee is the spouse of the employer, a child (under the age of 21) of the employer, or, in most cases, the employer's parent.

### **Do You Telecommute?**

If you are one of the growing number of workers who perform your job from home—full- or part-time—you might be wondering whether you stand to benefit from the home office deduction, which qualifies certain telecommuters for some rather significant tax breaks.

#### **The deduction is not for everyone**

Few people realize that only certain employees qualify for the home office deduction. In essence, tax law carves out the deduction for, among others, employees who use their own home for the convenience of their employers. The Tax Court has fleshed out this test to mean that, to take the deduction, either it is necessary for you to maintain a home office to properly perform your duties as an employee; your home office is a condition of your employment, i.e., your employer requires that you work from home; or your home office actually is necessary to the functioning of your employer's business.

Like many determinations in tax law, the Internal Revenue Service (IRS) looks at the facts and circumstances on a case-by-case basis to determine whether the business use of your home is actually carried out for your employer's convenience. The requirement is not easy to meet, but you're more likely to get the deduction if your employer requires you to work from your own home, without alternative or hotel space in the office for telecommuters, than if your employer merely says its "okay" for you to work from home. As a general rule of thumb, it is probably safe to assume that if you have the use of office space on your employer's premises, you do not qualify for the deduction.

Note that this is “probably” so because there have been cases, though extremely rare, in which the home office has been deemed necessary to perform job-related duties even though the employee is not required to work from home. The cases surrounding these exceptions to the general rule turn on a dime, often focusing on a particular detail.

To be safe, it’s best to consult with your CPA to determine whether you qualify for the deduction and to perform the calculations of the amount of the deduction you may be able to claim.

### **Exclusive and regular use**

In addition to meeting the employer-related convenience test above, tax law also requires that you use a portion of your dwelling “exclusively” and “regularly” for purposes of carrying out your trade or business as an employee.

*Exclusively* refers to the notion that you actually use your home office only to carry out your work duties. If you use that space for any other purpose—such as entertaining friends, serving family meals, hosting out-of-town guests, or other activities—you lose the deduction for which you’d otherwise be entitled.

*Regularly* refers to the concept that the work you carry out is done on a recurring, continuous, or ongoing basis. In other words, the business cannot be occasional in nature.

### **If you qualify**

If your telecommuting situation qualifies for the various deductions associated with carrying on your business in a home office, then your home office deductions must be computed on a particular worksheet.

The deductions you would be eligible to claim are the cost of maintaining the space, depreciation cost for furniture and fixtures, the allocated cost of utilities, and several other attractive benefits, including the ability to carry over deductions to future years.

Your expenses will be reported as below-the-line miscellaneous itemized deductions on Schedule A only to the extent that they and your other miscellaneous itemized deductions exceed 2% of your adjusted gross income (AGI).

## **Survey of Employee Benefits**

Our readers often like to know how their company benefits compare to others. Read the following findings to see how the benefits you offer as an employer stack up (in comparison to numbers released about the public sector).

In a report released by the U.S. Bureau of Labor and Statistics, the following information was made public:

- 70% of workers in private industry have access to employer-sponsored medical care plans, and 53% participate in medical care plans.
- 60% of workers have access to retirement benefits, with 50% participating in at least one type of retirement plan.

Data published by the National Compensation Survey, which provides comprehensive measures of occupational earnings, compensation cost trends, and details of benefit provisions in private employers, show that:

- Most employees covered by medical care plans are in plans requiring employee contributions for both single and family coverage.
- Employee contributions to medical care premiums average \$273.03 per month for family coverage; for single coverage, employee contributions average \$68.96 per month.
- Employer premiums for medical care plans average \$575.77 a month per participant for family coverage; for single coverage, employer contributions average \$252.22 per month.
- Employer contributions are higher for those employees who are not required to contribute than for those who are.
- 21% of employees participate in defined benefit retirement plans, and 42% in defined contribution plans. (Some employees participate in both.)
- Paid leave is the most commonly provided employee benefit in the private sector. Paid holidays and vacations are available to 77% of employees.
- Paid jury duty leave was also common, available to 69% of workers.
- 48% of workers have paid military leave benefits.

## **TAX CALENDAR**

### **APRIL 2006**

#### **April 10**

**Employees who work for tips.** If you received \$20 or more in tips during March, report them to your employer. You can use Form 4070.

**April 17**

**Individuals.** File an individual income tax return for 2005. If you want an automatic six-month extension of time to file your return, file Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Alternatively, you can get an extension by phone or over the Internet if you pay part or all of your estimated income tax due with a credit card. Then file Form 1040, 1040A, or 1040EZ by October 16.

If you are not paying your 2006 income tax through withholding (or will not pay in enough tax during the year that way), pay the first installment of your 2006 estimated tax. Use Form 1040-ES.

Note that April 17 is also the deadline for making contributions to IRAs or Roth IRAs for 2005.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in March if the monthly rule applies.

**Household employers.** If you paid cash wages of \$1,500 or more in 2005 to a household employee, file Schedule H (Form 1040) with your income tax return and report any employment taxes. Report any federal unemployment (FUTA) tax on Schedule H if you paid total cash wages of \$1,000 or more in any calendar quarter of 2004 or 2005 to household employees. Also report any income tax you withheld for your household employees.

**Partnerships.** File a 2005 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc., or a substitute Schedule K-1. If you want an automatic six-month extension of time to file the return and provide Schedule K-1, file Form 7004. Then file Form 1065 by October 16.

**Electing large partnerships.** File a 2005 calendar year return (Form 1065-B). If you want an automatic six-month extension of time to file the return, file Form 7004. Then file Form 1065-B by October 16.

**Corporations.** Deposit the first installment of estimated income tax for 2006.

**MAY 2006**

**May 1**

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2006.

**May 10**

**Employees who work for tips.** If you received \$20 or more in tips during April, report them to your employer. You can use Form 4070.

**Employers.** For Social Security, Medicare, and withheld income tax, file Form 941 for the first quarter of 2006 only if you deposited the tax for the quarter in full and on time. Otherwise, Form 941 was due on May 1. See Pub. 509, page 7.

**May 15**

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in April if the monthly rule applies.

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In accordance with IRS Circular 230, this newsletter is not to be considered a “covered opinion” or other written tax advice and should not be relied upon for IRS audit, tax dispute, or any other purpose.

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