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## Client Information Bulletin

April 2014

### New Tax Choice on Home Office Deductions *Compare deductions under two methods*

**F**or a qualified small-business owner, a home office deduction can result in significant annual tax savings. But there's a new twist on 2013 returns: A taxpayer may use a simplified method for deducting home office expenses, although this is not always the best choice.

**Background:** To qualify, you must use the office regularly and exclusively as your principal place of business or a place where you meet or deal with customers, clients or patients in the normal course of business. If you are an employee of a company, you must use the home office for the convenience of your employer.

For instance, if you are self-employed and you run your business from home, you will generally qualify for home office deductions. But if you merely bring work home from your office on weekends, you are not likely to realize any tax benefits.

**Traditional method:** Normally, a home office deduction includes direct expenses attributable to the office, plus a proportionate share of indirect expenses such as mortgage interest, property taxes, utilities, repairs and insurance. (Caveat: Mortgage interest and property taxes are generally tax-deductible anyway.) The deduction available for indirect expenses is based on the percentage of your home used for business purposes. Also, you may be entitled to

a depreciation deduction for the part of the home used as an office.

However, this method requires you to keep detailed records of expenses. Beginning with the 2013 tax return due by April 15, 2014, the IRS is offering a streamlined option.

**Simplified method:** All you have to do is figure out the square footage of your home used as an office. Then, you can deduct \$5 per square foot, up to a maximum of \$1,500.

Nevertheless, when you compare these two methods, the traditional method may produce a bigger deduction. If you have the necessary records, you might bypass the simplified method.

**Hypothetical example:** Gina, a self-employed taxpayer, uses a home office as the principal place of her business. The home is 3,000 square feet and the home office is

300 square feet, or 10% of the home. Let's say that Gina has \$2,000 in direct home office expenses plus indirect expenses—including utilities, insurance and repairs—of \$10,000 for the year (disregarding mortgage interest and property taxes that would otherwise be deductible). Under the IRS table, Gina is also entitled to a \$400 depreciation allowance.

On these facts, Gina can deduct \$2,000 in direct expenses, \$1,000 in indirect expenses and \$400 in depreciation, for a total of \$3,400. With

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the simplified method, her deduction is limited to \$1,500, less than half of the total with the traditional method.

Be aware that you may switch between the traditional and simplified methods year-to-year. You are not locked into either method.

*Do not make any costly assumptions or rash decisions. Compare the deduction available with each method to see which way you come out ahead. Note that a taxpayer cannot switch methods on an amended return.*

## Ten Ideas for Better Brainstorming

### *How to achieve your objectives*

**A**re you looking to boost your business income? Although brainstorming might lead to that “million dollar idea,” it can also be a waste of time. Here are 10 ideas to improve productivity.

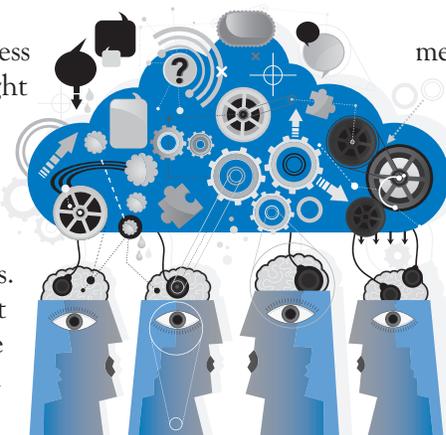
**1. Choose a moderator.** It is important to designate one person to guide the process. Otherwise, it is easy to get off track or out of control. Choose an authoritative figure who knows the project well, but who will not be overbearing—it might be you.

**2. Identify the goals.** Begin the agenda with a clear and concise explanation of your mission. Again, if you don’t set some parameters at the outset, you are likely to waste a lot of valuable time.

**3. Get outside input.** When you are constructing the team, add someone you might not normally include. This outsider can bring a fresh perspective to the mix. Fill out the roster with free thinkers and those who have close associations to the project.

**4. Limit the time.** Do not let brainstorming turn into a never-ending story. Set specific times for sessions and a deadline for meeting goals. This will help ensure that the team stays on track. Conversely, when it is appropriate, you might extend a session if ideas are flowing.

**5. Keep good records.** It may slow things down, but remember to keep notes during your brainstorming



meetings. Every idea, whether it is good or bad, should be written down. Do not rely on your memory to bail you out. Provide as many details as the process will allow.

**6. Do not pass judgment.** Initially, you should strive for quantity over quality. Instead of shooting down an idea, discuss it and then move on to the next one. If someone is discouraged from speaking up, productivity may suffer.

**7. Think outside the box.** If there was ever a time to embrace the unusual, this is it. Encourage team members to be open to the possibilities, no matter how outlandish they may seem. You may be surprised to find that practical solutions may evolve from impractical suggestions.

**8. Encourage individuality.** Do not allow your team to be drawn into a herd mentality. The moderator must watch for an overabundance of consensus thinking and steer the discussions accordingly. If appropriate, play the “devil’s advocate.”

**9. Narrow the focus.** The moderator should help funnel general ideas into more specific concepts. This means beginning with a “scattergun approach” that might be all over the place and ending up with a laser beam dedicated to a single thought. If it is practical, break into smaller teams when an idea crystallizes.

**10. Aim for synergy.** As you begin to winnow ideas, apply them to your company’s overall scheme. There could be a potential for creating some synergy within your operation or within the suggestions you have generated. When one idea dovetails with another, put them together.

*None of these suggestions guarantees success, but implementing them should improve the chances. Learn from your mistakes, and build on the positives.*



### **Give Us A Call!**

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

# No End to Sexual Harassment Claims

## *Employers must remain vigilant*

According to a recent poll cited in the *Wall Street Journal*, 46% of women believe they have experienced sex discrimination in the workplace. And the number of sexual harassment claims filed with the Equal Employment Opportunity Commission (EEOC) in 2011 totaled 7,521.



Once the company receives notice of a complaint, it should investigate the situation, even if the employee did not communicate displeasure at the time of the alleged harassment.

Is the employer automatically liable for a supervisor's actions? No. Each case is decided on its own merits. Nevertheless, the EEOC

**What does this show?** Employers should not be fooled into dismissing or ignoring the potential for sexual harassment claims. The problem simply is not going away, at least not anytime soon.

Be aware that there are two basic types of sexual harassment claims. "Quid pro quo harassment" occurs when employment decisions are determined by whether or not a person submits to sexual advances or demands. "Environmental harassment" represents unwelcome sexual conduct that creates an intimidating or offensive work environment.

According to the EEOC, a single incident or isolated incidents of offensive behavior generally do not create a hostile environment unless the conduct is severe. Although both types of harassment have been recognized as being actionable by the courts, environmental harassment is generally more difficult to prove.

An allegation of sexual harassment is strengthened if the complaint is contemporaneous. **Note:** The EEOC considers a complaint to be contemporaneous even if the worker does not notify the employer about the unwelcome conduct until the worker quits his or her job.

guidelines provide that an employer will be held responsible for the unreasonable acts of its employees, regardless of whether the acts were authorized or forbidden and whether the employer knew, or should have known, of the occurrence.

How does an employer determine whether the behavior is reasonable or not? This can be difficult. For instance, there may not be any witnesses to the alleged event (or series of events) or the witnesses could be biased. In some cases, the complaining worker may be accused of encouraging the conduct. In others, the employee may have "played along" out of fear or intimidation.

To avoid potential problems, employers should maintain an environment free of sexual harassment. In the event a claim occurs, follow these steps:

- ◆ Obtain a specific description of the event from both parties.
- ◆ Ask for the names of any witnesses.
- ◆ Collect all the other relevant facts (e.g., how long the conduct has been going on and whether the alleged victim has shown disapproval).
- ◆ Keep records of the meetings.
- ◆ Find out what course of action the alleged victim is seeking.
- ◆ Check to make sure that unwanted conduct has stopped.
- ◆ When it is appropriate, respond with action.

Finally, try to educate all employees about sexual harassment issues. If your company has not yet established a grievance procedure for complaints, it should do so promptly. Spell out the policy in the company manual.

*In this case, it is far better to be safe than sorry. Do not think that sexual harassment cannot occur at your firm. Take the necessary precautions to protect your interests.*

### **Where's Your Refund?**

Due to the government shutdown last year, the IRS was forced to delay the start of the tax filing season for individuals. Now that we are in "crunch time," you can expect some additional delays in processing returns.

If you are waiting for a refund, you can track its progress using the "Where's My Refund" feature at [www.irs.gov](http://www.irs.gov). Procrastinators who have not filed yet are encouraged to move quickly as the April 15 deadline fast approaches.





## Roundup of Five Popular Tax Credits

### Tax savings available on 2013 tax returns

A tax credit is more valuable than a deduction because it reduces tax liability on a dollar-for-dollar basis. The complete list is extensive, but here are five popular credits for individuals on 2013 returns:

**7. Higher education credits:** You may be able to take advantage of either one of two tax credits (but not both) for higher education expenses:

◆ **American Opportunity credit:** The maximum credit of \$2,500 per student can be claimed for the first four years of college study. The credit begins to phase out for single filers with a modified adjusted gross income (MAGI) above \$80,000 and joint filers above \$160,000.

◆ **Lifetime Learning credit:** The maximum credit of \$2,000 per taxpayer can be claimed in any year of undergraduate study. It begins to phase out for single filers with a MAGI above \$53,000 and joint filers above \$107,000.

**2. Child tax credit:** A \$1,000 credit is available for every qualifying child under age 17 whom you claim as a dependent. However, the tax benefits of the child tax credit are phased out for single filers with a MAGI above \$75,000 and \$110,00 for joint filers. The allowable credit is reduced by \$50 for every \$1,000 (or fraction thereof) of MAGI above the threshold.

**3. Dependent care credit:** You can claim the dependent care credit—often called the “child care credit”—for the cost of caring for a child under age 13 years or a depen-

dent unable to care for himself or herself. To qualify, the expenses must be incurred in order for you to be “gainfully employed.” The credit is generally equal to 20% of the first \$3,000 of qualified expenses for one dependent and \$6,000 for two or more dependents.

**4. Adoption credit:** Parents who adopt a child may be entitled to some tax relief. The adoption credit can be claimed for up to \$12,970 of qualified adoption expenses, including costs for reasonable and necessary adoption fees, attorney fees and other related expenses. However, the tax benefits of the adoption credit are phased out for filers with a MAGI beginning at \$194,580.

**5. Retirement Savings Contributions Credit:** Some taxpayers are in line for a little-known tax credit for making elective contributions of up to \$2,000 to qualified retirement plans. This includes contributions to 401(k), 403(b), 457, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) plans as well as traditional IRAs and Roth IRAs. A taxpayer may also claim the credit for voluntary after-tax contributions to qualified plans. The credit percentage ranges from 50% to 10% depending on the adjusted gross income.

*Other credits, such as the foreign tax credit and the credit for the elderly or disabled, are also available to some taxpayers on their 2013 tax returns. Obtain more details from your tax advisers.*

## Facts and Figures

### Timely points of particular interest

➔ **Flexible Spending Accounts**—Generally, you must use the funds in a flexible spending account (FSA) before the end of the year or lose them. However, an employer may allow a 2½-month grace period. Now the IRS says an employer may permit a participant to carry over up to \$500 of unused FSA funds to the next year. **The catch:** You cannot combine the carryover provision with the grace period.

➔ **Friendly Hire**—Sometimes the easiest way to fill a job opening is to hire a friend. But that is where the difficulties may begin. It can create a ripple effect, with negative ramifications in the workplace while possibly compromising a friendship. Do not consider it an outright prohibition, but tread carefully in this area. Usually, the best solution is to simply hire the best person for the job.

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