



# Tax Newsletter

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## May 2022

### *Upcoming dates:*

**Mother's Day** – May 8

**Memorial Day** – May 30

With tax season now in the rear view mirror for most of us, it is time to start thinking about how to minimize your taxes on next year's tax return. In this month's newsletter, get a start on your tax planning by learning about the tax consequences of the different types of virtual transactions, from cryptocurrency and non-fungible tokens, to internet marketplaces and online courses. Also read about maximizing your working-from-home opportunity, and a great article explaining how taxes work for those picking up a summer job.

### ***Tax Consequences of Virtual Transactions***

As the pandemic made us see the difference in convenience vs. necessity, the number and types of activities that are moving to the internet is exploding. It is important to remember that these virtual events can often trigger real-world tax implications.

Here are some things to keep in mind:

- **Internet Marketplaces** – The proceeds of sales of goods and services on internet marketplaces can be taxable income. That's true, whether you are a hobbyist or running an online business. Depending on your level of activity, tax rules may limit your deductions. Internet sales may also be subject to sales or use taxes, which vary by state. If the platform is considered a Marketplace Facilitator, sales taxes are collected by the marketplace itself and are remitted to the appropriate taxing entities. In other cases, that responsibility may fall on you. So it is important to know the difference.
- **The IRS is Watching** – New reporting requirements require more reselling activity to be reported to the IRS. If you resell your sporting event tickets or concert tickets by using an online tool, expect the platform to ask you for information about yourself, including your Social Security number. Why? E-bay, StubHub, Ticketmaster, and similar platforms must now report a lot of this activity to the IRS via new Form 1099-K, Payment Card and Third Party Network Transactions, reporting rules.
- **Crowdfunding** – If you use crowdfunding platforms like Kickstarter or Indiegogo to raise funds for your business venture or project, the money you receive can be taxable. If you provide a reward in exchange for different amounts, the funds you receive are treated as sales proceeds. Crowdfunding transactions may also be subject to state sales and use taxes. If the backers of your venture receive equity in your startup company, those transactions may not be taxable as income, but they are regulated by the Security and Exchange Commission.

- **Online Fundraising** – The funds that you receive through an online fundraising campaign to pay for medical bills, disaster recovery, or other personal expenses, generally, are treated as non-taxable gifts. Any donations to such campaigns may even qualify as deductible charitable contributions by the donors.
- **Virtual Currency** – Payments that you receive in the form of virtual currency for goods and services are treated similar to cash transactions and are included in your gross income at fair market value. But, that virtual currency is also considered property, which can result in taxable gains or losses. So you will also need to attach the fair market value to that virtual currency as of the receipt date of the currency. When you use the currency, you will need to track a gain or loss on that future transaction.

### ***Maximizing Your Working from Home Opportunity***

Flexible working arrangements appear to be here to stay. But the benefits of working from home also come with the challenge of maintaining an appropriate work-life balance and a high level of productivity. Here are several ideas to consider if you will be continuing to work from home, either full-time or occasionally:

- **Divide Your Day into Sections.** Consider dividing your day into segments based upon projects and make sure you have the quiet time that you need. If you have a family, it is easier to manage 2 to 3 hours of uninterrupted time rather than 8 to 10 hours at a time.

***Action Step:** An up-to-date calendar will help you, your family, and your co-workers know when you are busy.*

- **Create an Urgent/Important Section for Your To-Do List.** A never-ending to-do list can quickly rob you of your work-life balance. An urgent/important section can help you decide which items need completed today, and which items are okay to push into the future.

***Action Step:** The next time someone approaches you with a small project that needs to be completed as soon as possible, have that person help you decide where to place that task in your list.*

- **Over-Communicate with Your Boss.** Heading off telephone calls and e-mails from your boss asking about a project's status will save valuable time for both of you in the quest of work-life balance. Consider being proactive about sharing any information that your boss might want to know.

***Action Step:** A summary e-mail sent to your boss once a week could serve as a quick touch point about project updates instead of sending multiple e-mails throughout the week.*

- **Create and Review Your Own Space.** Even if you live by yourself, try to separate your work environment from your non-work environment.

***Action Step:** See how many hours you are giving your employer. Adjust your home work day to either be more productive or take some of your personal time back. Either working too much or not enough can create long-term complications.*

### ***Summer Jobs and Taxes***

Now is the time to prepare for the “adult” part of having a summer job – paying taxes! Here’s what you can expect depending on what type of job you have this summer:

- **The Employee.** A job at a retail store or restaurant generates earned income that is subject to payroll and income taxes. Paying taxes as an employee is easy, as all necessary taxes will be withheld from your paycheck. You may need to file a tax return if wages and tips are more than \$12,950, which is the standard deduction for single taxpayers in 2022.
- **The Family Business.** A job at a family business will also generate earned income that is subject to payroll and income taxes. If you are under the age of 18, and receive reasonable compensation for a legitimate job, and the business is either a sole proprietorship or an LLC, you could qualify for an exemption from Social Security, Medicare, and federal unemployment taxes.
- **The Entrepreneur.** A job such as mowing lawns, working on computers, or dog walking will generate earned income that is subject to income taxes. You will also have to pay a 15.3 percent self-employment tax on all profits. Paying taxes as an entrepreneur or business owner also involves making payments to the IRS, either electronically or via check, throughout the year.

### **What You Need To Do**

Here are some suggestions for understanding how taxes will affect your summer job:

**Explain How Taxes Are Withheld.** If you are an employee, take one of your paychecks and review how each dollar amount is calculated. This will also help you understand the different types of taxes, including federal and state income taxes, Social Security taxes, and Medicare taxes.

**Set Up A Savings Account.** If you have your own business, you will need to set aside a certain percentage of the money you earn to pay the IRS. An easy way to do this is by transferring a certain portion of the money into a savings account. Pay attention to the quarterly estimated due dates throughout the year – April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and January 15<sup>th</sup>. These are the deadlines for you to send tax payments to the IRS.

### ***The Home Gain Exclusion: Make Sure You Qualify!***

Across the country, many homeowners are cashing out to multiples over list price, especially since one of the largest tax breaks that is available to most individuals is the ability to exclude up to \$250,000 (\$500,000 married) in capital gains on the sale of your personal residence. Here is what you need to know:

#### **Background**

As long as you own and live in your home for 2 of the 5 years before selling your home, you qualify for this capital gain tax exclusion. Here are the official hurdles you must jump over to qualify for this tax break:

- **Main Home.** This is a tax term with a specific definition. Your main home can be a traditional home, a condo, a houseboat, or mobile home. Main home also means the place of primary residence when you own two or more homes.
- **Ownership Test.** You must own your home during 2 of the past 5 years.
- **Residence Test.** You must live in the home for 2 of the past 5 years.
- **Other Nuances:**
  - You can pass the ownership test and the residence test at different times.
  - You may only use the home gain exclusion once every 2 years.
  - You and your spouse can be treated jointly OR separately, depending on the circumstances.

#### **When To Pay Attention**

**You Live In Your Home for a Long Time.** The longer you live in your home, the more likely you will have a large capital gain. Long-time homeowners should check to see if they have a capital gain prior to selling their home.

**You Have Old Home Gain Deferrals.** Prior to the current rules, home gains could be rolled into the next home purchased. These old deferred gains reduce the cost of your current home and can result in a capital gains tax.

**Two Homes into One.** Newly married couples with two homes have a potential tax liability, as both individuals may pass the required tests on their own property, but not on their new spouse's property. Prior to selling these individual homes, you may wish to create a plan of action that reduces your tax exposure.

**Selling a Home After Divorce.** Property that is transferred as a result of a divorce is not deemed a sale of your home. However, if the ex-spouse that retains the home later sells the home, it may have an impact on the available amount of gain exemption.

**You Are Helping An Older Family Member.** Special rules apply to the elderly who move out of a home and into assisted living and nursing homes. Prior to selling the property, it is best to review the options and their related tax implications.

**You Do Not Meet The Five-Year Rule.** In some cases, you may be eligible for a partial gain exclusion, if you are required to move for work, disability, or unforeseen circumstances.

**Other Situations.** There are a number of other exceptions to the home gain exclusion rules. This includes foreclosure, debt forgiveness, inheritance, and partial ownership.

### **A Final Thought**

The key to obtaining the full benefit of this tax exclusion is in retaining good records. You must be able to prove both the sales price of your home and the associated costs that you are using to determine any gain on your property. Keep all of the sales records, purchase records, improvement costs, and other documents that support your home's capital gain calculation.

### ***Making Your Home Office a Tax Deduction***

The home office deduction is a great tax break for the millions of Americans who are now working from home, either occasionally or full-time. But there's one huge catch...you cannot be an employee!

That's right, if you're working from home for an employer, you normally cannot deduct your office expenses.

Here's a quick look at the basic requirements in order to be able to deduct your home office expenses, along with some suggestions on how to qualify for the deduction, and turning your home office into a tax planning opportunity:

### **The Basics**

There are two requirements for having a tax-deductible home office:

- **Your Home Office Is Only Used For Business Purposes.** Your home office must be used exclusively for operating your business. It can't double as the family media center or living room. To meet this requirement, set up your office in a separate area of your house. Then, if you get audited by the IRS, there is no doubt that your office is used exclusively for business purposes.
- **Your Home Office Is Your Primary Place Of Business.** You need to demonstrate that your home office is the primary place you conduct your business. The IRS has clarified that you can meet clients and conduct meetings at separate office locations, but your home office must be the only location where your administrative work is completed. So if you meet with clients or work on any part of your business away from your home office, keep a journal of each specific activity that is undertaken and describe how it does not violate the primary place-of-business rule.

Looking at these two criteria, everyone that is now required to work from home probably meets both qualifications.

### **Qualifying For The Deduction**

While it usually makes little sense to move from an employee to a contractor simply to get a home office deduction, too many ignore the move when it could be available to them. Here are some ideas.

- **Become An Independent Contractor.** The easiest way to deduct your home office expenses is by switching from being an employee to an independent contractor. With a number of firms cutting pay and benefits due to the pandemic, it may be worth exploring. If you can meet the IRS requirements for becoming an independent contractor, it may be worth doing the math by considering all the deductions your home office may make available to you and comparing them to the cost of lost benefits as an employee.
- **Start a Side Business.** If becoming an independent contractor for your current employer isn't an option, consider starting a side business. You can deduct all business-related expenses on your tax return, including your home office expenses. If you go this route, ensure your home office is in a different location in your home than your other workspace.
- **Consider Your Entire Household.** Even if you do not qualify for the home office deduction, maybe someone else living in your home does qualify. So look into your options to see if a family member can take advantage of the home office deduction.

Figuring out how to properly deduct your home office can be a lot more complicated than it appears. If you need help, please call for assistance.

Please feel free to forward the information to someone who may be interested in a topic and call with any questions you may have.

As always, should you have any questions or concerns regarding your tax situation, please feel free to call.

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