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## Abacus & Co. of NY, Inc.



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### Small Business Peer to Peer Group



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## March Newsletter

**Dear Pam,**

Are you getting all you can from your accounting dollars. Take a look at our Business and QuickBooks Tips section below to make sure.

*We Take The Work out of Paperwork!*

### Business Tip - Home Office Deduction

Just filing for a home-office deduction raises a red flag. The IRS feels there's a lot of potential abuse for reporting personal expenses as business expenses. But that doesn't mean you

shouldn't take your deduction if you're entitled to it. In order to qualify, you'll need to prove that your home office is your principal place of business that it's strictly for meeting with customers or clients, and used exclusively for business. You won't be eligible for a deduction if you use the office for business during the day and as a family room at night. Be careful with the computer as well.



If you qualify for the home office deduction, you may claim a portion of certain types of expenses that are associated with your home but are not deductible by the average homeowner. These expenses include insurance, utilities, repairs, security system expenses, maid service, garbage disposal, and decorating expenses. With all of these expenses, the general rule is that if a given expense pertains

only to the home office, the entire expense will be deductible as a "direct" home office expense. If the expense applies to the entire house, it's an "indirect" home office expense and only a proportionate part of it will be deductible. And if the expense applies only to the non-business portion of the house, none of the expense will be deductible. In addition, if you did not operate the business for the entire year, you may only deduct expenses that pertain to the portion of the year in which the office was used. You may deduct the business percentage of your homeowner's or renter's insurance as part of the home office deduction. Do not include the costs of any business insurance you carry or special home office policy riders in this figure. Those costs apply specifically to the business portion of your home, and are fully deductible as ordinary business expenses, not as part of the home office deduction. This distinction can become important if your home office deduction is limited by the amount of your business income.

As a general rule, you can deduct the business percentage of your utility payments for heat and electricity, and for services that pertain to the entire house such as trash collection, security services, and maid or cleaning services.

**Warning:** IRS regulations indicate that lawn service is generally not deductible as part of the home office deduction, even when the home office is used as a meeting place with clients (who presumably view the lawn as they enter the residence).

If you pay for a utility or service that's not used in your business at all, you can't deduct any portion of the expense. For instance, if you buy propane fuel that is used only in your kitchen and your business does not involve cooking, no part of the propane bill is deductible. If you believe that your business accounts for significantly more (or less) of a particular utility, you should increase (or decrease) your business percentage of that utility bill accordingly. This is not an exact science, and the IRS will accept a reasonable estimate.

Telephone bills that show business calls are considered direct business expenses, are not part of the home office deduction. Therefore, you may be able to deduct a portion of your home or cellular phone bill even if you don't qualify under the home office rules. In any event, you can't claim any deduction for the basic telephone service on the first telephone line in your home, or on your cellular phone.

These are considered to be personal expenses that you would incur even if you did not own a business. However, you can deduct any separately stated charges for local or long distance business calls. You can also deduct the cost of bringing a second phone line into your home, if you use the line exclusively for business.

Expenses that exclusively benefit your business (for example, repairing the drywall and repainting a former bedroom that is now your office) are considered "direct" home office expenses and are fully deductible. Expenses that benefit the entire home (for example, patching the roof so it doesn't leak, or carpeting the entire house) are considered "indirect" home office expenses that are proportionately deductible. And expenses that benefit only the personal portion of the home (for example, installing a whirlpool tub in the master bedroom suite) are not deductible at all.

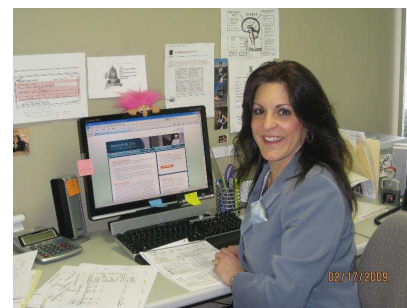
It's sometimes difficult to distinguish between a repair, which is deductible (fully or partially) in the year it was done, and an improvement, which must be depreciated over the course of property's useful life. The IRS says that an improvement is something that materially adds to the value of your home, considerably prolongs its useful life, or adapts it to new uses. A repair, on the other hand, is something that keeps your home in ordinary efficient operating condition but does not add to the value of your home or prolong its life. If repairs are done as part of extensive remodeling or restoration, the entire job is considered an improvement.

### *We Take The Work Out of Paperwork*

## QuickBooks Tip - Using the Class Tracking Feature

Use the class tracking feature to gather additional information. This is by far my favorite feature within QuickBooks. By assigning your income and expense transactions classes;

you can gather a lot of information. They provide you with income versus expenses by market segments, departments, locations, etc. A small business owner with several locations can run reports to find out how much income and expense



is being generated by location. In addition, a rental property business can see a profit and loss based on each piece of property.

Next month we will talk about your business financials and what they are trying to tell you. Your numbers are talking to you; make sure you know what they are saying!

**Sincerely,**

Pam R. Bauer, E.A.  
Abacus & Co. of NY, Inc.

Our Professional  
QuickBooks Pro Advisor  
Bookkeepers can do the  
work onsite, online or in-house. Give  
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