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TaxTips

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Cyber Security

How to protect your business

For organizations of every size and type, data security is an essential aspect of IT. Hackers are constantly finding ways into our data, which requires constant vigilance by business owners. Being proactive is the key to protecting yourself and your business from data theft.

Start by creating a data security plan. This may entail working with outside service providers and designating one or more employees to coordinate the program. The program should be flexible since circumstances and risks to customer information is extremely fluid. A stable plan starts with performing background and screening checks on potential employees during the hiring process.

Thieves will send emails pretending to be from existing customers, a potential client, financial institutions, etc. Create an educational program for all employees so they understand the dangers of phishing emails, opening links or attachments from suspicious email addresses, or answering phone calls from unrecognized numbers. Be sure to purchase top-notch security software that includes a firewall and anti-malware/anti-virus security software. Use this type of software on all devices including laptops, desktops, tablets, smartphones, routers, etc.

Adopt strong password protection. Passwords should be a minimum of 10 characters and use a combination of letters, numbers and symbols. Passwords should also omit personal information and should not be reused. Always use unique usernames and passwords for all accounts and devices. For extra security, consider implementing a multifactor authentication process.

Encrypt all sensitive files and emails. Encrypted files should require a password to open. Make it a priority to back up pertinent information and store any external drives in a secure location. In addition, limit access to pertinent business or customer data to only employees who need to know.

Remember an ounce of prevention is worth a pound of cure when dealing with cybercrime.

Starting a Business?

Quick tips everyone should follow

Starting a business is exciting and nerve-wracking all at the same time. The "to do" list can seem never-ending. Below are a few reminders to help you stay on track.

- **Write a business plan.** This key step will help you identify what is important to your business and where to focus your resources. By creating a plan, you will be able to outline your operational and financial goals. A plan will serve as a guide to shape budget and marketing strategies. Putting this information on paper will help to align your business purpose and outcome.
- **Do your research.** You will most likely do a lot of research while working on your business plan; however, you need to explore every aspect of the business you want to start. Become an expert on your industry, products and services. Join related professional associations to keep you informed on what's going on in similar markets. And don't forget to learn the ins and outs of your competition.
- **Obtain professional help when necessary.** Although you might be an expert in your industry, you don't need to be an expert on everything. If you need a contract written up, hire an attorney. If you are not an accountant or a bookkeeper, hire one or both to make sure your business financials are in order from the get go. Focus your energy on what you are good at! You don't want to waste time and money to fix a financial or legal mess later.
- **Ask questions.** When you are starting a business, you'll have a lot of questions. Find an experienced mentor in your industry. The opportunity to learn from someone who has already been through the start-up phase will prove invaluable.

- **Meet registration requirements.** Your location and business structure will determine your registration requirements, if any. Most businesses do not need to register with the federal government to become a legal entity; instead they need to file to obtain a federal tax identification number. Small businesses sometimes register with the federal government for trademark protection or tax-exempt status. In addition, if your business is an LLC, corporation, partnership or nonprofit corporation, you'll most likely need to register with any state where you conduct business. And don't forget about local registration requirements. Check with your local government websites to find out what is required in your area.
- **Open a business bank account.** You don't want to co-mingle your personal and business banking activities. You can open a business bank account once you have your federal EIN. Having a business bank account is a good practice for limiting your personal liability by keeping your business funds separate. A business account also allows customers to be able to pay you with credit cards and make checks out to your business rather than to you personally. Furthermore, a business account can offer the capability of creating a credit card account that can help your business make large startup purchases and help establish a credit history for your business.

While these tips only scratch the surface, hopefully they'll help you get started off on the right foot. Remember, we work with other businesses, so please reach out with any questions before or during your business journey.

Employer Identification Number

Does my business need one?

An Employer Identification Number (EIN) is a nine-digit number that the IRS assigns to identify tax accounts. It's also referred to as a Federal Tax Identification Number.

When deciding if your business needs to obtain an EIN, consider the following questions:

- Will you have employees?
- Will you operate your business as a corporation or partnership?
- Will you file employment, excise, or alcohol, tobacco and firearms tax returns?

- Will you withhold taxes on income, other than wages, paid to a non-resident alien?
- Will you have a retirement plan?
- Will you be involved with: (1) trusts, except certain grantor-owned revocable trusts, IRAs, exempt organization business income tax returns; (2) estates; (3) real estate mortgage investment conduits; (4) non-profit organizations; (5) farmers' cooperatives; or (6) plan administrators?

If you answered "yes" to any of the above, then you need to obtain an EIN.

Generally, businesses need a new EIN when their ownership or structure has changed. And it's important to note that if you are applying for tax-exempt status, be sure that your organization is formed legally before applying for an EIN.

Applying for an EIN is a free service offered by the IRS. An EIN can be obtained online, by fax, mail or telephone. All EIN applications must disclose the "responsible party." This is the person or entity who controls, manages or directs the applicant entity and the disposition of its funds and assets. Unless the applicant is a government, the responsible party must be an individual, not an entity.

Thinking of starting a new venture? Let's start by tackling the EIN application together.

The Home Office Deduction

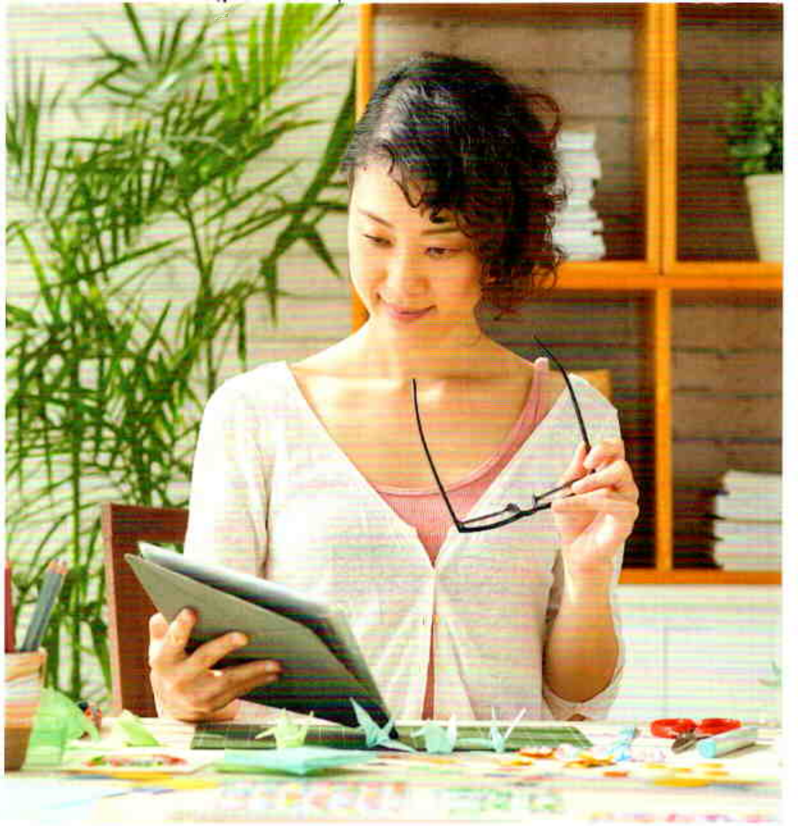
Qualifying for a tax deduction

Entrepreneurs who work from home can write off a portion of their housing and utility expenses.

A sole proprietor who uses 25% of her house as an office, for example, can deduct 25% of her rent or mortgage interest, property tax, homeowners or renter's insurance, and utilities.

To qualify for the home office deduction, entrepreneurs must have a dedicated space in their home that they use exclusively and regularly for business. IRS agents often focus on these two factors when auditing tax returns claiming the home office deduction. So, it's important you know what each of these factors mean.

- **Dedicated space used exclusively for business.** A home office doesn't have to be an entire room. It could be a desk and file cabinet sitting in a corner of a room. But, this area of the house must be used only for business, and nothing else. Using the room for recreation or having the kids do their homework at the desk means that the space is not exclusively used for business. And that would result in no home office deduction for that space.



- **Regularly and consistently use the space for business.** You don't have to work in your home office every single day. But you do need to use the space for business on a regular basis. Working from home only occasionally isn't sufficient. A dentist who sees clients in her home office only in emergencies, for example, might not be using the space regularly enough to qualify for the deduction.
- **Storage of inventory.** If you run a wholesale or retail business, you can also take a home office deduction for the area used to store your inventory and product samples. This storage area does not need to meet the exclusive use test. As long as you use the storage area on a regular basis, we can deduct the storage area in addition to the space you use for conducting business. This is a valuable deduction for eBay sellers and other merchants whose home is the only fixed location for their business.
- **Childcare, senior care, and adult daycare.** Day care providers can deduct the area of the home used for providing daycare services. The area doesn't have to be used exclusively for business. Instead, we take a deduction based on the amount of time the area is used for business.

Let us know if you work from home. We want to be armed with facts in case the IRS decides to ask any questions.

Safe Harbor for Rental Properties

Getting a qualified business income deduction

Landlords who spend at least 250 hours a year managing and maintaining their rental properties may be eligible for the Qualified Business Income (QBI) deduction. That averages out to just under five hours a week.

Unlike other deductions, the qualified business income deduction does not require that you spend money. Instead, it's a straight deduction, for up to 20% of net rental income for the year. For clients who qualify, this deduction allows rental property owners to pay tax on as little as 80% of their net income from qualifying rental properties. We even have the option of grouping several rental properties together to meet the 250-hour requirement.

Qualifying for this deduction can be tough. Here are the three factors we're looking for:

- 250 hours per year spent managing and maintaining your rental properties.
- You did not live in the rental property for any part of the year.
- The property isn't rented under a triple-net lease.

To reach the 250-hour threshold for the QBI deduction, we add up the hours you spend managing the rental property, and also time spent by your property manager, landscapers, repair contractors, and any other people you hire to maintain or manage the rental properties. Rental services that count toward the 250-hour test include:

- Advertising
- Negotiating leases
- Verifying rental applications from prospective tenants
- Collecting rents
- Maintenance and repairs
- Purchasing materials
- Supervising contractors and employees

Keep meticulous records of all the time spent managing your rental properties. Reviewing your time logs is how we — and the IRS — will be able to figure out if you qualify for the QBI deduction for the year.

You'll need to keep track not only of the time you spent yourself, but also time spent by any other people you hire to work on your rental properties. Your time log will need to track four data points:

- The dates rental property services were performed
- Number of hours spent
- Who performed the work
- A description of all the work done on that day

Finally, the IRS requires that you maintain separate books and records for each rental property. We can help you set up your bookkeeping, records and time logs so that you can claim this valuable deduction.