

WORK AT HOME

PREVENT HEADACHES, AVOID TAX MISTAKES

By Alice Bredin, Tribune Media Services

I have taken an informal poll of small business tax preparers over the last few weeks to find the most common tax misperceptions on the part of entrepreneurs. I set out to discover what errors get entrepreneurs in trouble at tax time.

The results of my interviews are listed here. These misperceptions are usually based on folklore heard from relatives or misinformed peers. The mistakes can lead to tax headaches, lost deductions and fines from the Internal Revenue Service.

Keep these misperceptions in mind when you are preparing your taxes for your home-based business.

- Misperception No. 1: Start-up costs are deductible immediately.

Costs incurred before you open your doors for business are deductible, but they must be spread out over at least the first 60 months you are in business.

There are two ways to avoid the delayed deductions. One, conduct some business during the start-up phase, or two, delay paying costs until you open for business.

You should talk to a tax expert before choosing either of these options because if you lose money in the first few years of operation, you may be better off having the deduction spread out.

- Misperception No. 2: Being

incorporated enables you to take more deductions.

Aside from health insurance, deductions for the self-employed (sole proprietors and S Corporations) are pretty much equivalent to corporate deductions. For many home-based businesses, being incorporated is an unnecessary expense and burden. Start-ups can spend \$1,000 in legal and accounting fees to set up a corporation, only to determine shortly after that they want to change their name or company direction.

- Misperception No. 3: The home office deduction is a red flag for an audit.

This is no longer as true as it once was. Because of the proliferation of home offices, tax

officials cannot possibly audit all tax returns containing the home office deduction. A high deduction-to-income ratio may be more likely to trigger an audit.

- Misperception No. 4: If you don't take the home office deduction, business expenses are not deductible.

You are still eligible to take deductions for business supplies, business-related phone bills, travel expenses, printing, wages paid to employees or contract workers, depreciation of equipment used for your business and other expenses related to running a home-based business, whether or not you take the home office deduction.

- Misperception No. 5: All

equipment expenses are deductible in the year you incur them.

You are entitled to deduct up to \$17,500 annually in equipment, other than autos, used in business (this amount goes up to \$18,000 in 1997 and increases annually in \$25,000 in 2003).

- Misperception No. 6: Taking an extension on your taxes is an extension to pay taxes.

An extension enables you to extend your filing date only. If you do not pay taxes on time, penalties, and interest begin accruing from the due date.

- Misperception No. 7: Part-time business owners cannot set up self-employed pensions.

If you start a company while

you have a salaried position complete with a 401K plan, you can still set up a SEP IRA for your business and take the deduction.

This tax session, as with all, carefully check all of your 1099 forms for mistakes. A small mistake can lead to needless hassle from the IRS later.

Alice Bredin is author of the "Virtual Office Survival Handbook" (John Wiley & Sons) and host of The American Express Small Business Exchange Web site <http://www.americanexpress.com/smallbusiness>. You can write to her at Tribune Media Services, 435 N. Michigan Ave., Chicago, Ill. 60611, or e-mail her at bredina@aol.com.

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Team Rejection Calls For Self-Reflection

By Lindsey Novak, Tribune Media Services

Q: After three months in my new position, my manager told me I was not doing my job, my group thought I was difficult to deal with, they were not happy with my performance, and a change had to be made. This was all a complete shock to me. What happened here?

A: Reflect on your behavior within the team setting and analyze any past issues that might have upset people. Ask some of the people in the group what you did that was unacceptable. It's hard to listen to that type of criticism, but it would give you insight into yourself, similar to the effect of group therapy. Take the comments seriously, but also with a grain of salt. Although

you may not work well as part of a team, you may excel as an independent position where you make the decisions.

SEXUAL HARASSMENT A FAMILY AFFAIR

Q: I'm a female working for a family-owned cable company. My foreman speaks openly on sexual subjects and in front of others has said things like, he wouldn't kick me out of bed, he didn't think my breasts were real, etc. The president and two of his sons have also made sexual comments to me. I complained about this conduct, and now one of the sons acts hateful toward me. Do I have a case against them?

A: It sounds like you're there taken

female; you're there, they think, for their entertainment. You don't have to put up with that kind of behavior. Call the Equal Employment Opportunity Commission to file a charge of sexual harassment against the company. An investigator will check into each incident and a determination will be made. If the company retaliates by firing you, you can then file another charge with the EEOC regarding the retaliation.

STUDENT LEARNS WHY PATIENCE IS A VIRTUE

Q: I recently resigned from my position after several years because after all the promises and great reviews, my supervisor still wouldn't promote me. I was finishing my degree at night and

they kept saying I'd be promoted when I finished. I was close to graduating, but I just couldn't wait anymore. I then found out that the company planned on hiring my replacement at a higher salary and was going to upgrade the position to the exact position I wanted. I feel cheated and discriminated because I didn't have a degree. Isn't this wrong? This experience has changed my view of corporate America.

A: Because of your impatience, you lost out on the job you wanted at a higher salary. A company can require any degree that it wants for certain positions. If the company had reneged on its promise to promote you after you obtained the degree, your anger and resentment would have been justified.

But you didn't give the company a chance to make good, so the only one you cheated was yourself.

IF OWNER WANTS STOCK BACK EXERCISE YOUR OPTIONS

Q: Three years ago, I joined a small company with good growth potential. After I'd been there for two years, the owner gave me 6 percent of the company stock in recognition of my work. The company has done very well, so he now wants the stock back. I don't want to sell it because the company's growth is continuing. He wants to sell the company now and offered me a ridiculously low amount for my shares. He's used to getting what he wants and

can make my life miserable. What can I do?

A: The owner may want those shares back as part of the deal with potential buyers. Give the financial information to a certified public accountant for advice on how to proceed. Holding the shares on a long-term basis may not be worth your while, but you certainly don't want to sell your shares at below-market price.

Having problems on the job? Write to Lindsey Novak in care of Tribune Media Services, Inc., 435 N. Michigan Ave., Suite 1500, Chicago, Ill. 60611. She can also be contacted at AtWork@INRAOL.com.

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