

IRS News Release

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For Small Business Week, IRS Spotlights Two Webinars, Health Care Tax Benefits, Simplified Home Office Deduction, Relief for Reclassifying Workers

IR-2014-62, May 8, 2014

WASHINGTON — The Internal Revenue Service is marking Small Business Week, May 12 to 16, by holding two free webinars for small businesses and encouraging them to check out several key tax benefits and a special relief program for employers who reclassify their workers as employees.

The webinars will cover payments to independent contractors and filing requirements for Form 1099 on Tuesday, May 13, and avoiding common mistakes on Thursday, May 15. Both webinars will begin at 2 p.m. Eastern Time and last an hour. To register for either event or view archived versions of past webinars, visit the [Webinars for Small Businesses](#) page on IRS.gov.

It's not too early for small business owners to begin planning to take advantage of various tax-saving opportunities when they file their 2014 federal income tax returns. In addition, substantial relief from past payroll tax obligations is available to eligible employers who agree to reclassify their workers as employees in the future. Here are further details.

Credit Helps Small Employers Provide Health Care Coverage

Small employers that pay at least half of the premiums for employee health insurance coverage under a qualifying arrangement may be eligible for the small business health care tax credit. First available in 2010, the credit is designed to encourage small employers to offer health insurance coverage for the first time or maintain coverage they already have.

Eligible small employers can claim the credit for 2010 through 2013 and for two additional years beginning in 2014. Targeted to small employers that primarily employ low-and moderate-income workers, the maximum credit, in tax-years 2010 through 2013, is 35 percent of premiums paid by small businesses and 25 percent of premiums paid by tax-exempt organizations.

In 2014, the maximum credit rate rises to 50 percent for small businesses and 35 percent for tax-exempt organizations. In addition, the small employer must pay premiums on behalf of employees enrolled in a qualified health plan offered through a

Small Business Health Options Program (SHOP) Marketplace (or through a direct enrollment process if available).

Small businesses claim the credit on their income tax return using Form 8941. Tax-exempt organizations also use Form 8941 and then claim the credit on Form [990-T](#).

The [Small Business Health Care Tax Credit](#) page on IRS.gov is packed with information and resources designed to help small employers see if they qualify for the credit and then figure it correctly. Learn more about health care options for small employers at HealthCare.gov.

Health Insurance Deduction Helps Many Self-Employed People

Many business owners qualify for the self-employed health insurance deduction. Available regardless of whether a taxpayer itemizes their deductions on Schedule A, eligible taxpayers claim this deduction on Form 1040 Line 29.

Premiums paid for medical, dental and qualified long-term care insurance covering the taxpayer, spouse and dependents are generally eligible for this deduction. Premiums paid for coverage of an adult child, under age 27 also qualify, even if the child is not the taxpayer's dependent.

The insurance plan must be set up under the taxpayer's business, and the taxpayer cannot be eligible to participate in an employer-sponsored health plan. Other special rules apply. Details, including a worksheet, are in IRS [Publication 535](#), Business Expenses.

Simplified Option Available for Claiming the Home Office Deduction

Starting in tax year 2013, people with home-based businesses can choose a new simplified option for figuring the deduction for business use of a home, commonly referred to as the home office deduction. The new optional deduction, capped at \$1,500 per year based on \$5 a square foot for up to 300 square feet, will reduce the paperwork and recordkeeping burden on small businesses by an estimated 1.6 million hours annually.

Normally, home-based businesses are required to fill out a 43-line form ([Form 8829](#)) often with complex calculations of allocated expenses, depreciation and carryovers of unused deductions. Instead, taxpayers claiming the optional deduction need only complete a short worksheet in the tax instructions and enter the result on their return.

Self-employed individuals claim the home office deduction on Schedule C Line 30, farmers claim it on Schedule F Line 32 and eligible employees claim it on Schedule A Line 21.

Though homeowners using the new option cannot depreciate the portion of their home used in a trade or business, they can claim allowable mortgage interest, real estate taxes and casualty losses on the home as itemized deductions on Schedule A. These

deductions need not be allocated between personal and business use, as is required under the regular method.

Business expenses unrelated to the home, such as advertising, supplies and wages paid to employees, are still fully deductible. Long-standing restrictions on the home office deduction, such as the requirement that a home office be used regularly and exclusively for business and the limit tied to the income derived from the particular business, still apply under the new option.

Further details on the home office deduction and the new option can be found in IRS [Publication 587](#).

Many Employers Can Qualify for Substantial Payroll Tax Relief

Many businesses can now resolve past worker classification issues at a low cost by voluntarily reclassifying their workers. Better yet, they don't have to wait for an IRS audit to do so.

By prospectively reclassifying workers, making a minimal payment and meeting a few other requirements, eligible businesses can achieve greater certainty for themselves, their workers and the government. More than 1,500 employers have applied to participate in the IRS [Voluntary Classification Settlement Program](#) (VCSP) since it was launched in September 2011.

The VCSP is available to many businesses, tax-exempt organizations and government entities that currently treat their workers or a class or group of workers as nonemployees or independent contractors, and now want to correctly treat these workers as employees in the future. To be eligible, an employer must:

- Consistently have treated the workers in the past as nonemployees,
- Have filed all required Forms 1099 for the workers for the previous three years
- Not currently be under audit for employment taxes by the IRS
- Not currently be under audit by the Department of Labor or a state agency on the classification of these workers. If either IRS or Labor previously audited the employer on the classification of the workers, the employer must have complied with the results of the audit and not currently be contesting the classification in court.

Interested employers can apply for the program by filing [Form 8952](#). Employers accepted into the program will pay an amount effectively equaling just over one percent of the wages paid to the reclassified workers for the past year. It's that simple. Moreover, employers will not be audited on payroll taxes related to these workers for prior years.

Details on these and other tax benefits are on IRS.gov. In addition, the Small Business Tax Center (www.irs.gov/smallbiz) has links to a variety of useful tax tools for small business, including the Virtual Small Business Tax Workshop, a downloadable tax calendar, common forms and their instructions and help on everything from how to get

an Employer Identification Number (EIN) online to how to engage with the IRS in the event of an audit.