

For immediate release:

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Note to Editors: To excerpt from the complete AIPB August newsletter, call 1-800-622-0121, fax 1-800-541-0066, or e-mail info@aipb.org for your own complete copy.

Professional Bookkeepers' Newsletter Offers Worker Classification Tips

Rockville, MD, Sept. 1, 2004 — The American Institute of Professional Bookkeepers' September eight-page monthly newsletter, "The General Ledger," presents a ruling on independent contractors (worker classification), new rules on tax deferrals, health savings accounts, the tax on drugs purchased abroad, a quiz, and a great deal of other helpful information. Excerpts:

Industry practice can establish that workers are independent contractors (ICs). An installation firm contracted with cable tv system companies to install the cables in subscribers' homes. The firm had treated its installers as ICs since its founding in 1987 but when the IRS audited the firm, it deemed the installers to be employees because the employer controlled how and when the work was done. The case ended up in court.

Rule of thumb: If the employer controls what work is done and how it is done, the worker is an employee.

More advance payments can be deferred for tax purposes. The IRS recently revised the rules for deferring taxes on various advance payments. Previous rules were that, except for a few limited exceptions, only taxes on advance payments for services could be deferred. Under the new rules, the IRS will allow deferral on payments for patent licenses, membership dues, subscriptions, gift cards, and other items. One requirement: For the tax on the advance payments to be deferred, the payments must be reported the same way for both tax and book purposes.

HSAs Popular employee health plans now available in many more states. Health savings accounts (HSAs) allow an individual to sock away thousands of dollars tax free to pay for medical expenses if the individual is covered only by a high deductible health policy. But some states require that certain medical expenses be covered from the first dollar under all health insurance policies in their states.

Now the IRS has ruled that HSAs are still allowed in those states through the end of 2005. The expectation is that the states will change their laws by then so that insurance policies issued there meet the federal tax law's definition of high deductible insurance. The IRS also has issued final comprehensive guidance about HSAs in a question-and-answer format. This supplements the guidance already issued on eligible individuals, HDHPs, preventive care, and both employee and matching employer contributions.

Warning to employees and employers on buying low cost drugs abroad.

Individuals and employers looking to Canada or other countries for cheaper prescription drugs should review all the consequences—including tax consequences. Importing prescription drugs violates federal law, and an illegal expenditure is not deductible, so the cost of such drugs cannot be deducted as a medical expense on an individual's income tax return.

Warning: To be reimbursed under an HSA or FSA (flexible spending account), a medical expenditure must be eligible for a deduction as a medical expense, so employers should not reimburse the cost of illegally imported drugs under either type of plan.

Small business bookkeeper's (or owner's) Quiz:

1. For tax purposes, reimbursement of an IC's substantiated business meal is ___% deductible by the business; the contractor reports ___% of the reimbursement.
2. Must you pay overtime to an employee who normally works a 35-hour week, then worked 38 hours in one week?
3. Are credit card statements adequate to support lodging expenses for tax purposes?
4. Your company's benefit plan covers only permanent, full-time employees unless it specifies otherwise. True or false?
5. If you give permanent, full-time employees paid vacation or holiday leave, must you do the same for part-timers?

Cell phone calls for business are deductible if . . .

6. at least ___% of cell phone use is for business [IRC Section 280F];
7. records substantiate _____ and _____ use; and
8. records show the _____, _____ and _____ of calls.

Answers: 1. 50, 0 2. No 3. No 4. False 5. No 6. 50 7. business, personal 8. time, location, business purpose.

The American Institute of Professional Bookkeepers is the national association and certifying body for bookkeepers, founded in 1987, currently with 30,000 members.

Mission: To upgrade bookkeepers' professional status through education. In most companies of fewer than 100 employees, the bookkeeper is the CFO. For further information, contact AIPB, Suite 500, 6001 Montrose Road, Rockville, MD 2085, 800-622-0121, fax: 800-541-0066 or visit www.aipb.org