



Dwight L. Hulse, MBA, MPA, CPA/CITP, CGMA, CA(BZ)

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The CFO Advisor

Guidance for Small Business Success™



Spring has arrived and it is a good time to do some cleaning to get your backoffice operations in order for the new season. Each spring provides an opportunity to throw out the old methods and plant new ones, which help your small business flourish.

In this issue, you'll find several tips that will keep you and your business on track and headed in a positive direction in 2020. You'll learn valuable tax pointers, suggestions for keeping your finances in order, and several ways to improve your office communications both on and off-line.

After reading this issue, your business will be ready to bloom! Happy Reading!

Until next month...

Dwight L. Hulse, CPA/CITP,CGMA



Unlock Tax Deductions with a Rental Property Home Office

It's a new year, which means a new opportunity to save on taxes.

One way to create valuable tax deductions is to establish a home office for your Schedule C or corporate business.

And just in case you didn't know, doing so isn't only limited to sole proprietorships, partnerships, or corporate businesses. If you rent properties, you can also establish a home office to manage those rental properties and deduct the cost on your Schedule E.

However, there are a few hurdles that you must overcome to successfully do so:

1. Rental activities must qualify as a "trade or business." Under the tax law, your rental activities must qualify as a "trade or business."

This is relatively simple and means that you will need regular and continuous involvement with your rental activities to meet the requirement.

The facts and circumstances of your rental activities will determine whether or not your rental activities qualify as a trade or business, and court cases will provide guidance on that.

2. Qualified space must be set aside for a home office.

To qualify for the home office deduction, there must be space set aside in your home that is used regularly and exclusively as the principal place of business for your rental activities.

This has become easier now than in previous years as lawmakers changed the rules of your principal place of business to include the space you use for administrative or management activities.

The above is valid provided that there is no other fixed location where you conduct those activities.

3. Changes to Household Expenses.

By establishing a rental property home office, two things happen with your household expenses:

- Non-deductible household expenses are turned into tax deductions.
- Household expenses normally deductible on Schedule A are moved to your rental properties on Schedule E.

After the passage of the Tax Cuts and Jobs Act, it is important to note the following changes:

- A \$10,000 limit on Schedule A state and local tax deductions, and
- The lowered amount of the mortgage on which you deduct mortgage interest from \$1 million to \$750,000.

4. Elimination of Commuting Expenses.

When you don't have a qualifying home office, your commuting mileage from home to your first business stop and from your last business stop back home is non-deductible.

If the rental property's principal office is in your home:



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- You have no commuting mileage from your home to/from your rentals if the rentals are within 50 miles of your tax home.
- If your rentals are outside of the area of your established rental property's tax home, then the mileage from your home to/from the rentals is deductible business mileage



5. Classification as a Real Estate Professional.

Assuming you qualify as a real estate professional under the tax law, then 100% of your rental losses can be deducted in the year in which they occurred.

However, the biggest hurdle in the classification as a real estate professional is that you must show the following:

- That you spend more than 50% of your personal service work time in real property trades or businesses in which you materially participate, and
- That you also spend more than 750 hours of service during the tax year in real property trades or business in which you materially participate.

When you have a rental property home office that qualifies as a principal place of business per the tax code, it makes it easier to qualify as a real estate professional since your time spent on deductible travel to/from rental properties counts toward the time requirements.

6. Claiming Your Deduction.

Not only do the Schedule E instructions make it difficult to claim your deduction by failing to provide any explanation about where to put the home office deduction, but they don't even mention a home office at all!

However, the instructions do state that you can deduct ordinary and necessary business expenses, and that is where the home office falls in. Additionally, as established in the precedent-setting case *Curphey*, the home office is allowable as an expense against rental business income.

For more information about how your rental properties can be structured to provide you with the best tax benefits, call your tax specialist.

10 Important Financial Tips

1. Don't spend more than you earn. That means you need to live below your means. Remember, if you make \$250,000 a year and you spend every penny of it — you are not well off!

2. Create a savings program. Get a system that works for you.

Most people probably don't think they can save \$500,000 — but those same people believe they can win a lottery of that amount, and they spend money trying despite the terrible odds. But the truth is that if you invested \$50 a week over 40 years and earned 9% interest you would have saved and earned \$1,026,853. If it's hard for you to save even after reading those numbers — you might want to have an automatic deposit taken directly from your paycheck and put into a savings account.

3. Invest in stock mutual funds. The average annual return is much higher than in a passbook savings account.

4. Open a Roth IRA if you qualify. The bottom line is you'll never have to pay tax on the interest, dividends or gains if you follow the rules.

5. Pay off your credit cards.

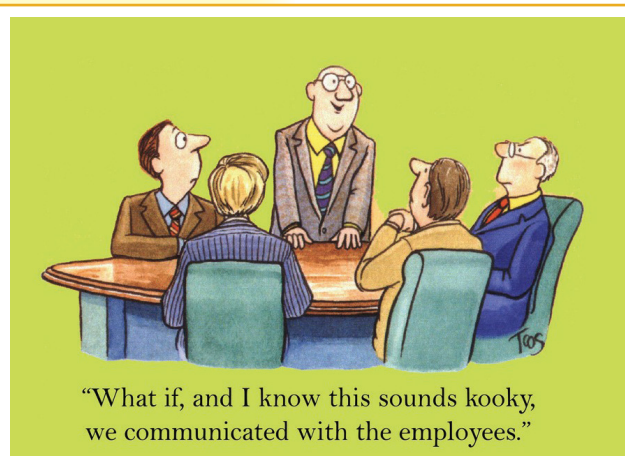
6. Set up your will or a trust. More than 50 percent of Americans die without a will.

7. Get life insurance — it's not for you, it's for your loved ones. Make sure you check out all the different options and select the ones that are appropriate for you.

8. If you don't know the ins and outs of the tax breaks available to you — hire someone who does.

9. If you're going to live in the same area for a while — **buy a house.**

10. Be prudent. If something sounds too good to be true — it probably is.



Are You In Need of a Trusted Business Advisor?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As an experienced business advisor, I have worked not only in private and public industries but also across many functional areas and can help you implement best practice solutions to improve profits.



Do You Have A Tough Accounting / Finance Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at 352-450-2880 or email me at dwhight@dlhulseconsulting.com. Perhaps I'll feature you in a future issue!



Practice Open Communication To Avoid Money Problems

Family discussions about money can be stressful and difficult. But if you, your spouse, and the rest of your family take some time every once in a while to talk about your spending habits and your attitudes about money, you'll eliminate many unpleasant financial surprises in the long run.

Here are some tips for holding a profitable conversation:



• **Take a collaborative approach.** Include all family members in financial discussions. Let everyone express an opinion — including your children. Family members will be more supportive of decisions about spending if they feel their thoughts have been taken into consideration.

• **Identify the main issues.** Without casting blame, look at your major spending issues. Is too much money being spent in general, for example, or are you overspending in one specific area? Is your family spending too much money at the beginning of the month, leaving no funds for the end of the month?

• **Use “I” statements.** Avoid making accusations when discussing problems. For instance, you might want to say: “I get stressed out at the end of the month because we spend all our money in the first two weeks of the pay period. Is there anything we can do to avoid this situation?”

• **Be willing to negotiate.** Try to come to an agreement everyone can live with. For instance, a deal with your child might be: “Instead of cutting out movies altogether, let’s say no more than two movies per pay period, and only one movie per weekend.” When everyone gets part of what he or she wants, you’ll all be happier.

How Managers Undermine Team-Building Efforts

You want your workforce to work together. But team-building exercises can disrupt the harmony you need if you’re not careful.

Here are four ways managers frequently undermine their efforts to build teams:

- **Selecting the wrong activity.** An adventure trip designed to build trust among team members may sound fun, but will it really help your team? Every team has its particular strengths and weaknesses. Unless you know what they are, you can waste time and money on team-building activities that have no relevance to your group.
- **Expecting a single team-building exercise to last.** Without a long-term strategy, a day’s retreat or activity won’t transform a group of employees into a high-functioning team. At best, you’ll give the team a short-term shot in the arm. At worst, the day may bring up issues that can’t be solved in a day and are left to fester.
- **Assuming you’re on track when you’re not.** Building a team is a long-term process. You and the team need to know if you’re making progress. Don’t assume that things are improving on their own. Install a system that allows for regular evaluation of your team’s performance.
- **Not taking an active part yourself.** Unless you roll up your own sleeves and set the tone, the team isn’t likely to take the process seriously. As a manager, you have to become a key player in the improvement process.



WHEN WORKERS NEED YOUR FEEDBACK

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Be ready for the person’s reaction, and acknowledge any negative feelings the person may be experiencing.



• **Focus on improving performance.** Assure employees that you don’t just want to criticize them. Present this as an opportunity to help them improve their work. Discuss options for how to solve the problem, or get their ideas on the best way to get on the right track.



Quotes:

“If you want creative workers, give them enough time to play.” — John Cleese

“Effective leadership is putting first things first. Effective management is discipline, carrying it out.” — Stephen Covey

“The real measure of your wealth is how much you’d be worth if you lost all your money.” — Unknown

“A boss creates fear, a leader creates confidence. A boss fixes blame, a leader corrects mistakes. A boss knows all, a leader asks questions. A boss makes work drudgery, a leader makes it interesting.” — Russell H. Ewing

“Success is a lousy teacher. It seduces smart people into thinking they can’t lose.” — Bill Gates

“Success isn’t a result of spontaneous combustion. You must set yourself on fire.” — Arnold H. Glasgow





D.L. Hulse Consulting, LLC

I provide entrepreneurs with clarity and peace of mind for making better business decisions.

P.O. Box 357778, Gainesville, FL 32635-7778

www.dlhulseconsulting.com

Phone: (352) 450-2880

Email: dwight@dlhulseconsulting.com

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Disclaimer: Any accounting, business, or tax advice contained in this communication, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties.

Improving The Boss' Email

If you're the boss, the emails you send out can tell a lot about you, according to David Owens, clinical professor of management at Vanderbilt University's Owen School of Management. Owens can analyze an email and determine the sender's rank and seniority level in a company.

He says managers who are higher up in the company tend to send formal emails that lack detail, while managers lower on the corporate ladder will often send detailed messages and include humor in a less formal attempt to communicate.

Here are a few tips for better email use:

- **Don't use email** as your only way of communicating.
- **Keep your messages short and sweet** — and don't allow your exchanges to go on too long before you change over to face-to-face.



• **Make your subject line clear** and only send your message to the people it really needs to go to.

• **Encourage questions** in response to your email.

• **If you're angry**, save it for a face-to-face encounter.

• **A little humor is good**, but too much could erode your attempts to later send serious information.

• **Set a five-minute rule.** Wait five minutes before you send any message out. It'll give you time to correct a poorly written phrase or change your mind about sending the email at all.

• **Try to keep up** with your email every day.

• **Use spell check.** Proofread and look things up. Making silly mistakes can make you look bad.

— adapted from *the Microsoft Small Business Website*

When Workers Need Your Feedback

One of the toughest parts of being a manager is telling employees that they're not meeting expectations. But letting employees know they're slipping up is integral to building a strong workforce. Some pointers:

• **Don't wait for the "ideal time."**

There's no good time to tell employees about their professional shortcomings. You'll always have a looming deadline, or some other excuse. Deal with the issue right away. The longer you wait, the worse the problem may get.

• **Be direct but not rude.** Although you need to tell workers right away, don't just blurt out your feelings. Take enough time to prepare your message so it won't provoke an angry or defensive reaction.

• **Be prepared for their response.** The employee is probably hearing about the problem for the first time.



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