



## HELPING ENTREPRENEURS AND BUSINESSES GROW AND SUCCEED

A joint program of the Labovitz School of Business and Economics, Natural Resources Research Institute, and Swenson College of Science and Engineering.

### GOOD READING

**COBRA subsidy recipients who later become eligible for insurance coverage should notify their former employer to avoid a penalty.**

NOTE: This headliner is current through the publication date. Since changes may have occurred, no guarantees are made concerning the technical accuracy after the publication date.

Individuals who have qualified and received the 65 percent subsidy for COBRA health insurance, due to involuntary termination from a prior job, should notify their former employer if they become eligible for other group health coverage.

The American Recovery and Reinvestment Act of 2009 provides a subsidy of 65 percent of the COBRA health insurance premium for employees who are involuntarily terminated from September 30, 2008, to December 31, 2009. The subsidy requires only 35 percent of the premium to be paid for COBRA coverage for individuals, and their families, who have involuntarily lost their job and do not have coverage available elsewhere. The IRS announced the subsidy in a February 26, 2009, information release, IR-2009-15.

If an individual becomes eligible for other group health coverage, they should notify their plan in writing

### Three New **IRS TAX TIPS**



### Five Facts about the Home Office Deduction

With technology making it easier than ever for people to operate a business out of their house, many taxpayers may be able to take a home office deduction when filing their 2009 federal tax return next year.

Here are five important things the IRS wants you to know about claiming the home office deduction.

1. Generally, in order to claim a business deduction for your home, you must use part of your home exclusively and regularly:

- As your principal place of business, or
- As a place to meet or deal with patients, clients or customers in the normal course of your business, or
- In the case of a separate structure which is not attached to your home, it must be used in connection with your trade or business

For certain storage use, rental use or daycare-facility use, you are required to use the property regularly but not exclusively.

2. Generally, the amount you can deduct depends on the percentage of your home that you used for business. Your deduction for certain expenses will be limited if your gross income from your business is less than your total business expenses.

3. There are special rules for qualified daycare providers and for persons storing business inventory or product samples.

4. If you are self-employed, use Form 8829, Expenses for Business Use of Your Home, to figure your home office deduction. Report the deduction on line 30 of Schedule C, Form 1040.

5. Different rules apply to claiming the home office deduction if you are an employee. For example, the regular and exclusive business use must be for the convenience of your employer.

For more information see IRS Publication 587, Business Use of Your Home, available on IRS.gov or by calling 800-TAX-FORM (800-829-3676).

## COBRA subsidy (*cont.*)

that they are no longer eligible for the COBRA subsidy. The notice that the United States Department of Labor sent to the individual advising them of their right to subsidized COBRA continuation payments includes the form individuals should use to notify the plan that they are eligible for other group health plan coverage or Medicare.

If an individual continues to receive the subsidy after they are eligible for other group health coverage, such as coverage from a new job or Medicare eligibility, the individual may be subject to the new IRC § 6720C penalty of 110 percent of the subsidy provided after they became eligible for the new coverage.

Taxpayers who fail to notify their plan that they are no longer eligible for the COBRA subsidy may wish to self-report that they are subject to the penalty by calling the IRS toll-free at 800-829-1040. In addition, taxpayers will need to notify their plan that they are no longer eligible for the COBRA premium subsidy.

Anyone who suspects that someone may be receiving the subsidy after they become eligible for group coverage or Medicare may report this to the IRS by completing Form 3949-A, Information Referral (PDF).

References/Related Topics  
[How Do You Report Suspected Tax Fraud Activity?](#)

[COBRA Health Insurance Continuation Premium Subsidy](#)

[IR 09-76](#) IRS is on Youtube and Itunes.  
<http://www.youtube.com/irsvideo>  
[s](#)

## Five Facts (*cont.*)

**Link:** [Publication 587, Business Use of Your Home](#)  
[Subscribe to IRS Tax Tips](#)

## Eight Important Questions for Hobbyists

Summer is a time many Americans take their fishing poles and gardening tools out of storage. Hobbies – such as woodworking, stamp collecting and scrapbooking – are often done for pleasure, but can result in a profit.

If your favorite activity does make a profit every year or so, there may be tax implications. You must report income to the IRS from almost all sources, including hobbies.

Here are eight questions that will help determine if your activity is a hobby or a business.

1. Is the purpose of your activity to make a profit? Generally, your activity is considered a business if it is carried on with the reasonable expectation of earning a profit.
2. Do you participate in your activity just for fun? Hobbies – also called not-for-profit activities – are those activities that are not pursued for profit.
3. Do you depend on income from the activity? If so, your activity is likely considered a business.
4. Have you changed methods of operation to improve profitability? If so, your hobby may actually be a business.
5. Do you have the knowledge needed to carry on the activity as a successful business? People who carry out hobbies just for fun, often don't have the business acumen to turn their not-for-profit activity into a profitable business venture.
6. Have you made a profit in similar activities in the past? This may indicate your activity is a business rather than a not-for-profit hobby. An activity is presumed carried on for profit if it makes a profit in at least three of the last five tax years, including the current year – or at least two of the last seven years for activities that consist primarily of breeding, showing, training or racing horses.
7. Does the activity make a profit in some years? Even if your activity does not make a profit every year, it still may be considered a business.
8. Do you expect to make a profit in the future from the appreciation of assets used in the activity? This indicates your activity may be a business rather than a hobby.

If your activity is not carried on for profit, allowable deductions cannot exceed the gross receipts for the activity. If you are conducting a trade or business you may deduct your ordinary and necessary expenses.

More information about not-for-profit activities is available in Publication 535, Business Expenses, available on the IRS.gov Web site or by calling 800-TAX-FORM (800-829-3676). [IRS Publication 535](#), Business Expenses

## Employee vs. Independent Contractor – Ten Tips for Business Owners

If you are a small business owner, whether you hire people as independent contractors or as employees will impact how much taxes you pay and the amount of taxes you withhold from their paychecks. Additionally, it will affect how much additional cost your business must bear, what documents and information they must provide to you, and what tax documents you must give to them.

Here are the top ten things every business owner should know about hiring people as independent contractors versus hiring them as employees.

1. Three characteristics are used by the IRS to determine the relationship between businesses and workers: Behavioral Control, Financial Control, and the Type of Relationship.
2. Behavioral Control covers facts that show whether the business has a right to direct or control how the work is done through instructions, training or other means.
3. Financial Control covers facts that show whether the business has a right to direct or control the financial and business aspects of the worker's job.
4. The Type of Relationship factor relates to how the workers and the business owner perceive their relationship.
5. If you have the right to control or direct not only what is to be done, but also how it is to be done, then your workers are most likely employees.
6. If you can direct or control only the result of the work done -- and not the means and methods of accomplishing the result -- then your workers are probably independent contractors.
7. Employers who misclassify workers as independent contractors can end up with substantial tax bills. Additionally, they can face penalties for failing to pay employment taxes and for failing to file required tax forms.
8. Workers can avoid higher tax bills and lost benefits if they know their proper status.
9. Both employers and workers can ask the IRS to make a determination on whether a specific individual is an independent contractor or an employee by filing a Form SS-8 – Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding – with the IRS.
10. You can learn more about the critical determination of a worker's status as an Independent Contractor or Employee at IRS.gov by selecting the Small Business link. Additional resources include IRS Publication 15-A, Employer's Supplemental Tax Guide, Publication 1779, Independent Contractor or Employee, and Publication 1976, Do You Qualify for Relief under Section 530? These publications and Form SS-8 are available on the IRS Web site or by calling the IRS at 800-829-3676 (800-TAX-FORM).

Links:

[Contractor vs. Employee](#)

[Publication 1779](#)

[Publication 15-A](#)

## THE WEEK AHEAD

### Computer Workshops

**[Excel III - Macros and Functions](#)**

10/20/2009 (1:00pm-  
4:00pm) \$60.00

<u><a href="#">Computers 102 - Desktop Productivity</a></u>	10/21/2009 (9:00am-12:00pm)	\$60.00
<u><a href="#">PowerPoint II - Beyond the Basics of Creating Presentations</a></u>	10/21/2009 (1:00pm-4:00pm)	\$60.00
<u><a href="#">Dreamweaver - Web Page Design III</a></u>	10/22/2009 (9:00am-12:00pm)	\$60.00
<u><a href="#">Dreamweaver - Web Page Design IV</a></u>	10/22/2009 (1:00pm-4:00pm)	\$60.00

## QuickBooks

<u><a href="#">QuickBooks</a></u>	11/10/2009 (9:00am-4:00pm)	\$99.00
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## Regional Workshops

### Writing a Business Plan – Virginia

10/28/09                      2:00 pm – 4:00 pm                      \$25.00

Workshops held at Mesabi Range Community & Technical College, Norse Conference Room, 1001 Chestnut Street W., Virginia, MN 55792. To register: 218-742-3438, [schristenson@mr.mnscu.edu](mailto:schristenson@mr.mnscu.edu) or [www.mr.mnscu.edu/academics/ceclasses.html](http://www.mr.mnscu.edu/academics/ceclasses.html)

The University of Minnesota Duluth Center for Economic Development offers numerous workshops to help entrepreneurs and employees operate more efficiently. **All workshops are held at the Duluth Technology Village, 11 E. Superior Street, Suite 210, unless otherwise noted.** To register call: 218-726-7298, 888-387-4594 or register online: [www.umdced.com/workshops](http://www.umdced.com/workshops).

**The mission of the University of Minnesota Duluth Center for Economic Development is to assist entrepreneurs and businesses to grow and succeed.**

*Funded in part through a cooperative agreement with the U.S. Small Business Administration, Minnesota Department of Employment and Economic Development and sponsoring centers. Reasonable accommodations for persons with disabilities will be made if requested at least two weeks in advance. For arrangements, contact: UMD Center for Economic Development, 11 E. Superior Street, Suite 210, 218-726-7298*

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