

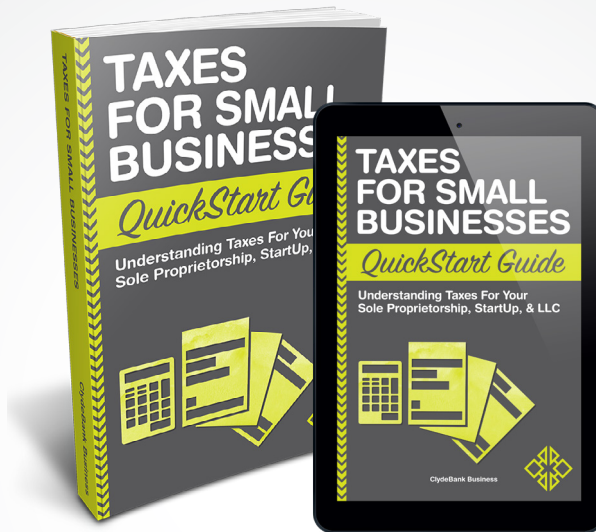
TAXES FOR SMALL BUSINESSSES

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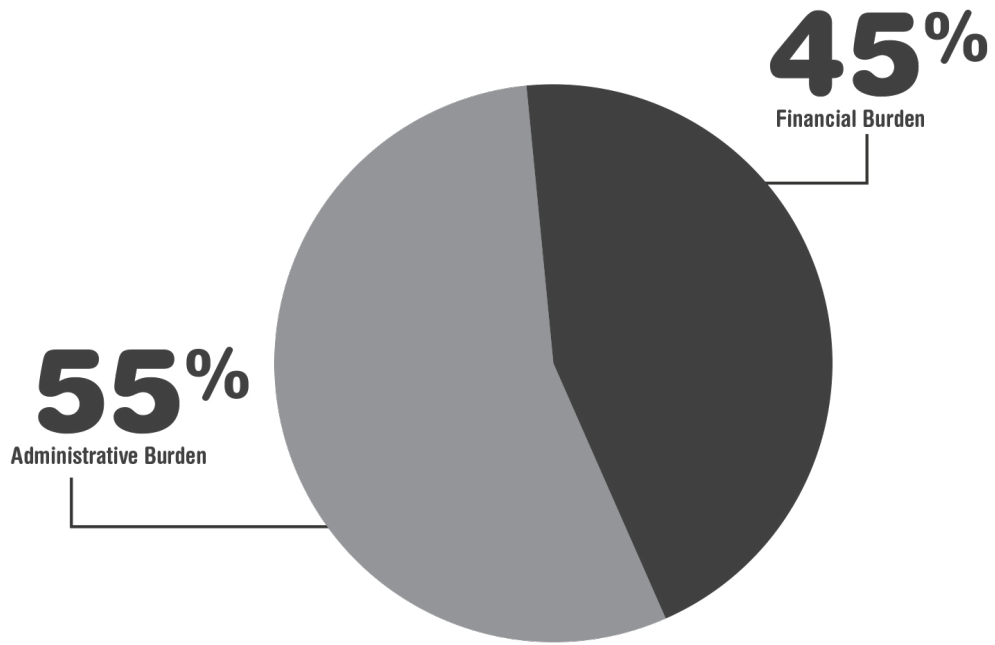
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CHAPTER 4

How to Keep Good Records

fig. 1



BONUS QUIZ

Answers

Expense #	Expense Type	Expense Amount	Deductible (y/n)	Notes
1	Home Office	\$ 150.00	Yes	30 sq. ft. * 5
2				
3				

Expense #	Expense Type	Expense Amount	Deductible (y/n)	Notes
1	Home Office	\$ 150.00	Yes	30 sq. ft. * 5
2	Home Office	N/A	No	
3	Interest Payments	\$ 250.00	Yes	

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1	Home Office	\$ 150.00	Yes	30 sq. ft. * 5
2	Home Office	N/A	No	
3	Interest Payments	\$ 250.00	Yes	
4	Software	\$ 25,000.00	Yes	25 of 30K immediately deductible
	Depreciation (yr 1)	\$1,667.00	Yes	1/3 of Remaining 5K
	Depreciation (yr 2)	\$1,667.00	Yes	1/3 of Remaining 5K
	Depreciation (yr 3)	\$1,667.00	Yes	1/3 of Remaining 5K

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5	Mileage	\$ 11.50	Yes	20 mi * 57.5 cents

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	Depreciation (yr 3)	\$1,667.00	Yes	1/3 of Remaining 5K
5	Mileage	\$ 11.50	Yes	20 mi * 57.5 cents
6	Bar Tab	N/A	No	
7	Mileage	\$ 8.63	Yes	15 mi * 57.5 cents

Expense #	Expense Type	Expense Amount	Deductible (y/n)	Notes
7	Mileage	\$ 8.63	Yes	15 mi * 57.5 cents
8	Travel	N/A	No	
9	Travel	N/A	No	
10	Travel (transportation)	\$ 600.00	Yes	50% of \$1200 (international travel)
	Travel (destination)	\$ 2,500.00	Yes	conference (only 50% for meals/entertainment)
	Travel (destination)	\$ 200.00	Yes	meetings (only 50% for meals/entertainment)

GLOSSARY

Accrual-Based Accounting

This accounting method is centered on the basis of the flow of goods and services in and out of the business, as opposed to the flow of cash in and out of the business (Cash-Based Accounting).

Actual Expense Method

An alternative to the standard mileage rate method for calculating the expense of business travel. This method requires comprehensive record keeping on all expenses occurred through the use of a vehicle for business travel.

Automated Under-Reporter Program

A tool the IRS uses to identify individuals and businesses that under-report their tax liabilities. If the Automated Under-Reporter Program identifies your business, then the IRS files a form CP2000, which is a notice of proposed changes to your return.

Balance Sheet

A snapshot of a business's total asset, liability, and equity value at a certain date. A properly rendered balance sheet depicts tax liability in relation to a business's other liabilities.

Cash-Based Accounting

This accounting method uses the inflow and outflow of cash as the primary basis for a business's accounting records. While accrual-based accounting is generally the best choice for general financial management purposes, cash-based accounting is preferred for establishing tax liability.

C Corporation

A type of business entity that is recognized as separate from its owners in terms of liabilities. If a C corporation incurs debt or is sued, its shareholders (owners) may not be held personally liable. A C corporation reports its income using a Form 1120 U.S. Corporation Income Tax Return.

Destination Expenses

Expenses incurred at the site of a business travel destination, such as meals, hotel, rental car, taxi, and other on-site expenses.

Electronic Federal Tax Payment System

A government system that connects to private bank accounts and allows businesses to submit regular tax payments. Payments can be submitted either online or over the phone.

Employer Identification Number -

A number the IRS issues to a business that's used to keep track of the business's reporting to the IRS and other state agencies.

Estimated Tax

Refers to the payment of tax from income not subject to withholding, such as tax paid from income gained through self-employment.

Federal Unemployment Tax Act

A law that levies a 6% tax on employers to help fund workforce agencies that provide benefits to the unemployed (Unemployment Insurance) and assists them in finding new jobs (job service programs).

LLC (Limited Liability Company)

LLC's owner(s) are not personally liable for debts or legal judgments levied against the company. For tax purposes, LLCs report their profits/losses on either a Form 1040 or 1065 depending on whether it's a single or multi-member LLC. LLCs are considered "pass-through entities"

Lookback Period

The four quarters ending on June 30th of the previous calendar year. The total amount of deposited payroll taxes during these four quarters determines whether or not your business is required to deposit payroll taxes on a monthly or biweekly basis.

Partnership

A business entity whereby two or more parties are the exclusive owners of the business. Partners in a business are personally liable for all debts and legal judgments levied against the business. Partnerships must file a Form 1065 "US Return of Partnership Income." For tax purposes, partnerships are considered "pass-through entities" (see the corresponding entry in this glossary).

Pass-Through Entities

Business entities such as sole proprietorships, partnerships, and LLCs that, unlike corporations, do not pay tax at the entity level. The profits of these entities are passed through to their owners, who then pay standard income taxes.

Sales Tax

A consumption-based tax added to the price of a good or service. Sales taxes are paid by the consumer when a consumable is purchased.

S Corporation

An S corporation, unlike a C corporation, is considered a pass-through entity. The corporation itself is not taxed, but only the owners (shareholders) are taxed on their personal income statements based on the profit/loss reported by the S corporation on its Form 1120.

Section 179 Tax Deduction

A modification of the tax code that allows businesses to deduct the full purchase price of new equipment rather than just deducting the depreciation of the equipment on a year-by-year basis.

Self-Employment Tax

A federal tax imposed on self-employed individuals to cover their full share of Social Security and Medicare expenses. For 2014, the self-employment tax rate was 15.3% (12.4% for Social Security and 2.9% for Medicare).

Sole Proprietorship

A business entity owned by a single individual, for which the individual is personally liable for all debts and legal judgments levied against the business. Sole proprietorship owners file a Schedule C with their tax returns to report the profits and losses of the business. For tax purposes, Sole proprietorships are considered "pass-through entities" (see the corresponding entry in this glossary).

Standard Mileage Rate

The IRS-approved per mile rate used to calculate the business expense of travel by car. In 2016, the standard mileage rate is 54 cents per mile.

Substitute For Return (SFR)

A tax filing completed by the IRS when an individual or business fails to complete its own tax return.

Tax Credit

A dollar-for-dollar decrease in the total amount of tax due from a person or business.

Tax Deductions

A reduction in a person or business's total taxable income.

TFRP

The IRS assesses a Trust Fund Recovery Penalty against persons responsible for a business's failure to collect or submit its payroll taxes. The TFRP is also known as the 100% penalty, because the penalty is 100% or double the amount of missing payroll taxes.

Transportation Costs

Costs incurred specifically while getting from one destination to another, such as airfare, bus fare, or a long distance car rental; separate from destination costs.

Use Tax

An excise tax on a good or service that's used or stored in a certain state, but was purchased outside of the state at a location where sales tax was not collected.