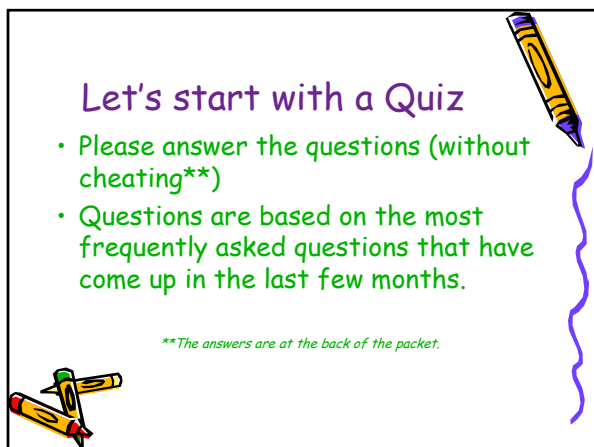


TAXES!
What every entrepreneur and consultant needs to know.


*presented to
CPCUG Entrepreneurs & Consultants SIG
by
Jina Etienne, CPA*



Let's start with a Quiz

- Please answer the questions (without cheating**)
- Questions are based on the most frequently asked questions that have come up in the last few months.

**The answers are at the back of the packet.



So how did you do?

Bounced Checks

- As a cash basis taxpayer, you only include income you actually receive.
- Remember to "post" a bounced check against your Revenue Account so it offsets income
- Bank fees for a return check are deductible
- Fees charged to clients (bounced check charge or NSF Fee) are income.



§ 179 Expense Rules

- Qualifying property (primarily personal property)
- Must be used more than 50% in a trade or business
- Maximum Expense for 2003 \$100,000**
- Limited to actual income (excess can be carried over)

**Reduced to \$25,000 for tax years 2006 and later



Special Rules for SUV's

- The vehicle must weigh over 6,000 lbs (gross vehicle weight)
- If the business use drops below 50%, then you must recapture the write-off (i.e., add it back to income).



Employ your spouse?

- He/she must be a bona fide employee
- May be exempt from unemployment taxes (federal & state)
- Eligible for benefits (tax planning opportunity)
- How about the kids? Grandma?



Estimated Tax Rules

This was a trick question because we need to know about the entire tax return before this question can be answered because estimates are based on your total income.



S Corporation Income

- Net S corporation income is considered passive income *not earned*.
- You can only make contributions to retirement plans based on earned income (i.e., wages).
- If you provide services, you **MUST** pay yourself reasonable wages



LLC Income

- If only one owner, then either:
 - Taxed as a corporation or S corporation
 - Disregarded Entity (file Schedule C)
- If multiple owners, then can:
 - Elect to be taxed as a partnership, corporation or S corporation
 - Pass-through earnings may be exempt from self-employment tax (consult your tax advisor)



Partnership Income

- General Partner
 - Receive guaranteed payments instead of wages
 - Self-employment tax on net share of earnings
 - May contribute to a retirement plan based on net self-employment earnings
- Limited Partner
 - Usually treated as a passive activity, therefore no self-employment tax



Filing Status

- Status is determined on December 31st
- Married persons living apart for the entire year may file as single
- If you choose *married filing separately*, neither spouse can qualify for "head of household status"



QUESTIONS?

See back of handout for a place to note your questions and the answers.

Forms of Business

- Sole Proprietorship
- Partnership
- Corporation
- S Corporation
- LLC

Office in Home

- Two tests:
 - Regular Use Test
 - Exclusive Use Test
- No gain on sale if office is NOT a separate structure
- Must recapture depreciation at 25%

Estimated Taxes

The objective is to avoid an underpayment penalty. Two methods you can use:

- Safe Harbor (estimates should be equal to last year's tax, or 110% if AGI is greater than \$150,000)
- 90% of Current Year Tax (need to do a tax projection and monitor your income throughout the year)



Electronic Filing

- Offered free by *most* CPAs
- You can prepare your own return and take it to a 3rd party for e filing
- You can do it yourself online
- More and more software programs include e filing options



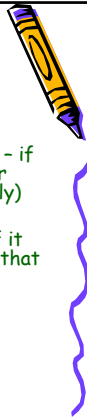
Electronic Payments

- Can pay for balance due, estimates, extension payments, and installment agreement payments.
- By credit card at www.officialpayments.com (Discover, MasterCard, Visa or American Express)
- Electronic funds withdrawal
- Electronic Federal Tax Payment System (or EFTPS), a FREE service.
 - Must enroll to use this service
 - Information: www.eftps.gov or (800) 555-4477
- Many states now accept credit cards, too!



The Little Things

- Be neat (Use a computer)
- Check your totals (even if you use a computer - if one form references another, check the other form to make sure the figures carried properly)
- Keep a signed copy (print two, sign both)
- Always send your return *Certified Mail* (proof it was sent) & *Return Receipt Requested* (proof that they actually received it)
- Use real numbers. Don't round (unless it is an estimated amount, then use whole numbers)



MORE QUESTIONS?

Email them to:

jina@etiennecpas.com

I filter email, so remember to put
[CPCUG Member] in the subject line.



Thank you!!

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