#1 New York Times Best Selling author Robert G. Allen says, "Everyone with a home-based business needs this book. Anyone without a home-based business needs it even more!"

Second Edition

IT'S HOW MUCH YOU KEEP *That Counts*

Not How Much You Make

Special Edition for US HEALTH ADVISORS

Scott C. Turner, CPA and Ronald R. Mueller, MBA

It's How Much You *KEEP*, That Counts! Not how much you Make.

THE *ULTIMATE* TAX-REDUCTION SYSTEM
for Small & Home-Based Business

The Ultimate Tax-Reduction System **Includes…**

- **Easy-to-follow, step-by-step Tax-Reduction Guide**
  This Guide cites the Tax Law which authorizes each deduction.
- **Tax-Reduction Estimator**
  In just minutes, see how much you will slash your taxes.
- **Personal Vehicle Mileage Log**
  This, alone, could document up to $5,000 worth of deductions.
- **Take-home Pay Increase Estimator**
  In just seconds, see how much your take home pay could increase.
- **Customized, Personalized Business Plan**
  The IRS says having *this* proves that you are in a "real business."
- **Family Member Employment Agreement**
  This legal document will give you thousands in new deductions.
- **Self-Insured Medical Reimbursement Plan**
  This document lets you deduct *every dollar* of medical expenses!
- **W-4 Adjustment Package**
  The key to putting hundreds in cash in your pocket every month.

Scott C. Turner, CPA and
Ronald R. Mueller, MBA

It's How Much You KEEP, That Counts! Not how much you Make™
The Ultimate Tax-Reduction System for Small & Home-Based Businesses™

Published by Triple-7 Enterprises, Inc.

This publication is intended to provide accurate information in regards to the subject matter covered. All information contained in this system is deemed to be complete and accurate; however, since tax laws are subject to change and reinterpretation on a continuing basis, **the authors and publisher take no responsibility for the legal or tax implications of using information contained herein. The reader is advised to retain his/her own expert counsel specializing in home-business tax-law.**

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mcgrafix@swbell.net

If After Reading The Information Contained in this Ultimate Tax Reduction System, You Would Like to Learn More About Any of the Following Benefits…

- Having the opportunity to **earn an Executive Level residual income, while working 100% from the comfort and safety of your own home,** by partnering with a proven and established 1.2 billion dollar company, or

- Showing others how they can uniquely get an **immediate savings of up to 25% to 50% on many of their medical and dental expenses -** whether they are uninsured or underinsured, or

- You would like to learn how you can put up to **$200 - $600 dollars, or more, per month, of immediate income in your pocket,** to help you start and pay for some of the costs associated with your new home-based business,

Then You Need to Contact…

Name: David Hanson

Contact Phone: 715-831-1606

Email: dave@thatsmyjuice.com

Web Site: http://thatsmyjuice.com

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Foreword

by

Robert G. Allen

For more than two decades I have been writing, lecturing, teaching and coaching thousands of people about the importance of establishing multiple streams of income. **I've been #1 on the New York Times bestseller list with two books:** Nothing Down and *Creating Wealth*, and my newest bestsellers are *Multiple Streams of Income* and *Multiple Streams of Internet Income*.

The media has referred to me as "the millionaire-maker" because of the great number of people who have taken my message to heart and acted on the advice I gave them.

Ron Mueller, the primary author of this step-by-step guide, is also one of my protégés and has been a close personal friend of mine for several years. The title of this system delivers a truly important message:

- No matter how many streams of income you put into place,
- No matter how large those streams grow to become,
- No matter how successful each stream turns out…

Ultimately, as it says on the cover,

It's How Much You *KEEP*, That Counts!
Not how much you Make!

This tax-reduction system is thoroughly-researched, carefully documented, fun to read and easy to use. In a word, **it is invaluable.**

With this system, anyone can understand and use all of the tax laws Congress has passed in order to encourage the average American worker to establish and run home-based businesses.

I'm not aware of any other system like this available anywhere. Nothing this thorough, this uncomplicated, this useful.

"It's How Much You KEEP!" is a valuable addition to my own personal resource library. Congratulations to you for making it a part of yours too. But don't put this on your bookshelf. Use it! My own businesses are all based in my own home, for the very reasons Ron Mueller and Scott Turner describe in this terrific guide.

Do you want to know a secret**? A simple home-business offers more tax breaks than the super-wealthy can get with their expensive tax lawyers.** That's no lie!

You know, I've always thought that reading about tax-law was about as exciting as watching paint dry. But in this system, Ron and Scott actually make tax-law fun to read about! No kidding, you will actually enjoy reading this system! This is a "light read" with a "powerful impact."

Everyone with a home-based business needs this system!
Anyone <u>without</u> a home-based business needs it <u>even more</u>!

Financial Freedom is an attainable goal. I think the most powerful way to accomplish it is to:

(a) Establish multiple streams of income
(b) Focus on streams that produce residual income
(c) Use the tax laws wisely in order to ensure that you are paying only the minimum required by law.

My books will help you with (a) and (b), but "It's How Much You KEEP, That Counts! Not how much you Make." is what you will need for (c).

Prosperously yours,

Robert G. Allen

Dedications & Acknowledgments

As Author, I would like to dedicate this system first of all to **GOD**, without Whom nothing is possible. A special debt of thanks goes to my good friend and personal mentor **ROBERT G. ALLEN**. His most recent bestseller, *Multiple Streams of Income,* and its phenomenal success, actually stimulated me to create this system. Everyone who reads Bob Allen's books and then follows his advice, will have one or more home-businesses, and thus be able to reap massive benefits from this new tax-reduction guide.

I also dedicate this to my close friends **KEN KERR**, the creative genius behind Disney's EPCOT Center and now widely acknowledged licensing, direct marketing and advertising guru; and **MITCH AXELROD**, "trainer of trainers" in personal effectiveness, marketing genius, true humanitarian and my valued friend.

Finally, I acknowledge my parents **Clare and Betty Mueller** who instilled in me the core values of integrity, honesty and a sense of purpose – values that I hope are evident throughout this system; my son and daughter-in-law **Jeff and Jennifer Mueller** who shared in my excitement about publishing this system; my daughter **Christina Mueller** for her research assistance; my sister and brother-in-law **Lanette and Charlie Keever** and their son and daughter-in-law **Jason and Angie Mueller** who personally proved that following the advice in this system really does produce thousands of dollars in new tax savings; and my brother and my sister-in-law **Bob and Brenda Mueller** for their insightful questions and personal support.

Ron Mueller

AS CO-AUTHOR, I would like to dedicate this system to my remarkable children, **Garrett, Ben** and **Beth**; to my patient, loving mother **Fern Turner**, and to my compassionate, exemplar father **Duane Turner** – who all add incredibly to my life experience.

Scott C. Turner

New useful small and home-based business tax law information is continually being posted and updated by the authors.

See page 195 to learn how you can access this important information for your own use.

About This System

By profession, the original author of this tax-reduction system is not a tax expert, a tax lawyer or a CPA (although I recruited THE best, in my opinion, as co-author).

What I am is an investigative journalist. A journalist who asks good questions, who probes until I get answers that make sense, who follows up on every lead, who checks out every inconsistency, and who doesn't report anything until I thoroughly understand everything I can about the topic I'm writing about.

In 1999 I committed to a personal 'mission' to discover all the legal tax deductions available to part-time or full-time businesses run out of a taxpayer's home. **One of the first things I discovered, absolutely shocked me!**

It's a fact – expertise in home-based business tax law is not even tested in the CPA exam! Even CPA Continuing Education materials in most states have NEVER contained sections or offered courses regarding home-based business tax law.

Millions of Americans turn to CPAs for tax advice each year, assuming they know what deductions are legal and which ones are not. But just finding a person with the initials 'CPA' after his or her name, is no guarantee that he or she knows ANYTHING about home-based business tax law. They will <u>only</u> know it if they are <u>self-taught</u>.

As you will see in Chapter I, the key to maximizing your personal tax deductions (i.e., minimizing your legal tax requirements) is in operating a business based in your home.

Now I ask you, if most CPAs know <u>little</u> or <u>nothing</u> about home-business tax law, how many of them do you think are **EXPERTS in the many details of home-business tax law!?** As an investigative journalist, **I scoured the country and found only a couple dozen!**

It's How Much You KEEP, That Counts! <u>Not</u> how much you <u>Make</u>, is the result of extensive research, interviews, and synthesis of hundreds of written, spoken, published, authorized and/or approved tax-law interpretations and explanations by America's leading home-business tax-law experts.

The people whose works and words I studied and absorbed for a year and a half included home-business tax authorities such as retired career IRS Senior Executives, former IRS Investigators, a former top lawyer in the IRS' Office of the Chief Counsel, co-author of one of the most widely used tax-preparation software programs, **and a licensed CPA for more than 20 years who personally has served thousands of clients who own and operate their own home-based businesses.**

That CPA with over 20 years experience, and master of home-business tax law, ultimately became the **co-author of this Second Edition - Scott C. Turner, CPA.**

After running my own home-business for a full year, and using my hard-won knowledge to slash my own taxes by thousands of dollars, I knew I was ready to offer these insights to the millions of Americans who operate a home-based business and who have been needlessly over-paying their taxes year after year.

To them I say,

Pay Uncle Sam every penny required by law.
But the law does *not* require you to *over*-pay!

If you read about some deductions in this Guide that intrigue you, and then go ask your own tax preparer about them, he or she just may say, "No, that's not legal." Why? **Because they don't know!**

Why don't they know? To refresh your memory, skip back to the previous page. They've never studied it or learned about it.

You shouldn't have to fight with your tax preparer about the legality of these deductions, so here's what you will find throughout this system…

For every major deduction we describe in this guide, you will find, right here in black-and-white, the exact Congressional Law, Article in the U.S. Tax Code or United States Tax Court Ruling which specifically authorizes it.

So, when your tax preparer says one of these deductions is not legal, point them to the source cited in this system. When he or she reads the sources we cite for you, he or she can arrive at only one conclusion – **the deductions are 100% legal, ethical, safe and proper.**

It's not their "fault" they didn't know about them. They never had an incentive to learn home-business tax law – that is until now.

But now you, their client, will say to them:

> *"I want to take advantage of far more deductions than you've ever told me about before, and I can prove that each one is legal and ethical."*

If you do not have a home-based business, and you would like to learn more about how you could start earning a residual monthly income from the comfort and safety of your own home, while partnering with a proven and successful company, then please see page 195 right away.

Here's Proof that These Strategies Work

My name is Blake Warrington. I'm a firefighter in Northern California, but also I have been an entrepreneur and home-based business owner for over eighteen years now. I am proof positive that the strategies detailed in this system do, in fact, work. I continually utilize these legal business deductions in my own home-based business on a regular basis – and so should you. In fact, if you are not, you are flushing your hard-earned money down the drain.

For years I over-paid my taxes because I did not know about the strategies that are so clearly described in this tax-reduction system. There was no system like this available anywhere, and nobody ever shared this information with me – **not even my CPA**.

Let me show you how powerful the information contained in this system can truly be by sharing some of my personal 1999 Federal Tax Return information with you.

Once I projected how my home-based business would do financially that year, I was able to immediately change my W-4 form with my employer and claim seven allowances (you will understand more of what this means later in this system).

Claiming these additional withholding allowances **immediately increased my take-home pay from my regular job by a couple hundred dollars per month!**

By the end of the tax year for 1999 I had paid total Federal Income Taxes of just $7,276, which was only 10.88% of my total wages, salaries, tips (line 7 of my Form 1040).

However, it turned out that I was too conservative on my W-4 estimation, because **I received a refund check in the amount of $5,141** of the $7,276 I had paid -- meaning that, in the end, I paid only $2,135 in Federal Income Taxes. In other words, ***my legal tax obligation was a mere 3.19% of my total wages***.

I have had three IRS audits during my home-based business career. In my first audit I ended up paying a couple hundred dollars for honest errors I had made. Because of the strategies contained in this system, and the fact that I now keep better records **(see Chapter X of this system),** my last two audits were stamped **"Accepted as Filed."**

In other words, all my deductions were found to be true and correct and I did not have to pay a penny in additional taxes!

Remember, my main intent (as well as yours), and the reason our government approved these legal tax breaks, is because they hope that we will all build large profitable businesses which will eventually pay more and more taxes. It's a win-win situation for everybody.

It is so important that every working American start a home-based business with the intent to make a profit, and begin to **implement these legal tax strategies immediately.** Don't put it off any longer. Read this system, get your business started, and ***increase your take-home pay right away while you work towards creating that successful business!***

Blake Warrington

About the Authors

Ronald R. Mueller is a graduate of the United States Naval Academy in Annapolis, MD, where he earned a B.S. degree with majors in Management and Psychology. He later earned a Masters Degree in Mass Communication from the University of Oklahoma (including coursework at the University of Georgia), and then completed work for his Masters in Business Administration (MBA) at The George Washington University in Washington, DC.

Following Naval Academy graduation, Ron elected to serve his country on active duty as a Naval Officer for eight years, including a tour in-country during the Vietnam Conflict. He later retired from the Naval Reserve with 26 years service, at the rank of Captain (O-6).

Ron Mueller has been a newspaper reporter, an editorial writer, a television news producer, a magazine columnist, and a radio station DJ and newscaster.

He also has produced a record album, made TV commercials, recorded radio "spots," and written public education brochures, special inserts for newspapers, speeches for corporate executives, and strategies for major communications announcements.

His career has also included holding senior executive positions in businesses ranging from as small as a dozen employees to companies as large as a French-based multi-national consortium and a major Fortune-50 U.S. aerospace and defense contractor.

In 1999, Ron Mueller said "no more" to his grueling 4-hour-per-day, 100-mile roundtrip commute, and established his own home-based business – researching and writing this system.

Scott C. Turner graduated with a Bachelor's Degree in Business (with an emphasis in Accounting) from California State University at Hayward, one of the nation's top accounting schools.

Following graduation he was recruited by all 8 of the "Big-8" accounting firms. He accepted an offer from Main LaFrentz, a unit of KPMG, the largest accounting firm in the world, where he immediately specialized in Small and Home-Based Business accounting and taxation – a specialty in which he has remained focused to this day, more than two decades later.

He later left KPMG, was Certified as a Public Accountant (CPA), and joined a San Francisco Bay Area accounting firm, still specializing in small and home-based business taxes.

Scott Turner is the former Tax Consultation Specialist for one of the nation's largest benefit providers, now serving more than 10 million members nationwide.

He also was a key member of the National Tax Team and was a Director of the Affiliate Organization for a business which provided tax consultation and audit representation for tens of thousands of American home-business owners.

Scott Turner manages a tax and accounting firm representing thousands of clients all over the United States, but stays focused on his specialty **-- Small and Home-Based Business Tax Law.**

Overview

Everybody thinks they are paying too much in taxes, yet it is a rare person who <u>does</u> anything about it.

Congratulations! By purchasing this tax-reduction system, you put yourself into the 1% of the population willing to at least **consider** taking some actions to legally reduce your taxes.

Let me ask you a question: If someone offered to show you a legal way to reduce your **mortgage** or **rent** payments by 50% or reduce your car payment by 50%, would you be interested? Of course!

Why, then, does 99% of the population take no action when offered information on how to reduce their **taxes** by 50%?

The two main reasons are:

(1) Fear of the IRS, and

(2) Fear of the time it will take to keep detailed records.

There's good news for you on both counts!

No Need to Fear the IRS

If you're not shoplifting, for example, do you care about those detectors at the exit door of the drug store? Why would you? If you're driving and have not been drinking, do you fear being stopped by police at a Breathalyzer checkpoint? No, because you have nothing to fear if you haven't been drinking.

When you obey the law, there is no reason to fear law enforcement.

Well, if you follow tax strategies passed into law by Congress and authorized in the IRS Code, would you have reason to fear an IRS audit? Of course not.

Look, if the speed limit is 55 mph, would you "play it safe" by driving 40 mph? **No!** Well then, why would you "play it safe" and decline to accept legal tax deductions passed by Congress for your benefit?

A taxpayer's chance of being audited is less than one-half of one-percent, but even if you ***are*** audited, you have nothing to fear because "you're not shoplifting" and you're not "drinking while driving."

You are well within the law because every tax deduction in this system is 100% legal.

For people who carefully follow this tax-reduction system and get tax advice from experts on home-business tax law, an audit would simply be an inconvenience – not something to be feared.

Record Keeping is a "Piece of Cake"

This Guide will show you how to spend only minutes a day keeping records that could qualify you for up to $5,000 <u>or</u> <u>more</u> in tax deductions every year, **and** that also satisfy all the IRS requirements for documentation.

That's thousands of dollars in **your** pocket that you **have** been putting into **Uncle Sam's pocket** by over-paying your taxes.

There is <u>another</u> way to put an extra $5,000 in your pocket…

You could take-on another part-time job. But you would have to make $12.50/hour and work 10 hours a week, 50 weeks a year, to put $5,000 after-tax cash into your pocket.

Or, you could spend a few minutes a day doing record keeping at home, whenever it is convenient for you, instead of working two hours every weeknight for a full year at a part time job you'd most likely hate.

Financially, the result is the same either way. Which would you rather do?

As you read this system, you're going to discover that it is amazingly easy to qualify for thousands and thousands of dollars in legal tax deductions that you had no idea about before.

This System is NOT about 'loopholes,' 'tax-dodges' or 'gray-area deductions.'

Every deduction discussed in this step-by-step guide is based on an Act of Congress, a Section in the Tax Code, a Tax Court Ruling, or other similar means. Think about it, the laws themselves allow so many legal deductions for home-business operators, who needs to take on the risky ones? Not you and not me!

We just discussed why you should have no fear of the IRS. First, the chance of an audit averages only one-half of one-percent – that's 1 out of every 200 people. Second, even if <u>you</u> end up being the '1' out of the 200, it'll be an easy audit, since you now have the specific reference authorizing every single deduction you claim, right here in this system.

Chances are, you'll be more knowledgeable than the IRS Auditor, which most likely will cause him or her to very quickly fold their books, and rubber-stamp your Tax Return:

Accepted as Filed

Why? Because the purpose of an audit is simply to see if a taxpayer qualified for all the deductions he or she claimed. By following the advice in this system, you will be able to very quickly establish that with the Auditor.

The Auditor's job is to identify people who are trying to cheat on their taxes, and then to collect the money they should have paid the government in the first place (plus interest and penalties).

Why would an Auditor want to waste his or her time going over the Tax Return of a taxpayer who can very quickly establish that he/she understands the tax laws, has followed them carefully, and has kept the required documentation?

They will "Thank you for your time," and go drop their fishhook in a different pond.

The Ultimate Tax Reduction System teaches you how to implement tax strategies with your home-based business that could save you up to thousands of dollars each year for having a home-based business with the intent to make a profit.

See page 195 if you would like to learn how you could also save up to thousands of dollars per year on your medical and dental bills.

Chapter I

The United States Has TWO Tax Systems

(and You are Probably in the WRONG ONE!)

The United States has one tax system for **employees**, which includes most working Americans, and a very different, much better tax system for **businesses**.

Employees get to write-off **almost nothing**, but **businesses** get to write-off **almost everything**.

> In this Guide, you will learn how you, as an *individual*, can legally and easily qualify for nearly all of the same tax breaks *businesses* get year after year!

First, a little background on America's tax system. Or, we should say, tax system**s**, since we have just said there are **two** tax systems in America.

The first type of Taxpayer is the *Employee*

Employees, or W-2 wage earners, work for someone else. Most taxpayers fall into this category. They have very few tax deductions available to them, usually just

- Mortgage interest,
- Standard deductions for dependents,
- Gifts to church or charity, and
- Contributions to a retirement plan.

Essentially, for employees, it's a three-step process:

Step 1: Work hard to earn a decent wage.
Step 2: Immediately lose a huge chunk of those wages to taxes.
Step 3: Then you get to take home whatever is left after taxes are paid.

The Second Type of Taxpayer is the *Business Owner*

Business Owners, on the other hand, get to write-off just about everything from rent to phone bills to furniture and janitors, and even their coffee and donuts!

Business Owners have a **very different** three-step process:

Step 1: Earn money.
Step 2: Spend whatever they want or need to.
Step 3: Then pay taxes only on whatever is left over.

The long list of deductions available to **Business Owners,** include:

- Mortgage interest or Rent
- **Gas, electric, water and sewer**
- Cleaning crews to dust, vacuum and empty the trash
- **Computers, copiers, fax machines and telephones**
- Paper, pens, ink cartridges and even postage
- **Desks, sofas, coffee tables and other furniture**
- Painting, wallpaper, carpeting and other repairs/remodeling
- **Phones bills, cell-phones, pagers and Palm Pilots**
- Newspapers, magazines, books and on-line media
- **Plane fares, hotel costs, meals and rental cars**
- Lunches, dinners, ball games, theater tickets & health clubs
- **Security alarms, hidden cameras and guard dogs**
- Health, life, dental, vision, disability and unemployment insurance
- **Company cars (and even boats)**
- Gifts to charity, non-profits, libraries, etc.
- **Contributions to Employee Retirement Plans**
- Lawn mowing, landscaping, snow and leaf removal, driveway repair
- **Holiday cards, gifts and postage.**

- And just about any other expense that qualifies as “ordinary and necessary” to operate their business.

If You are an *Employee*, How Much are You *Really* Paying in Taxes?

The answer will astound you!

Taxes represent the single largest bill the average American employee pays! Every single payday, the amount withheld from your paycheck for taxes <u>before you even see it</u> is probably more than your <u>food</u>, <u>clothing</u> and <u>transportation</u> **combined**!

When you add together Federal taxes, State taxes, sometimes County or City taxes, Social Security taxes, Medicare taxes and all the rest, if you’re like the “average” wage earner in America, **you could pay as much as 37.6 percent of your hard- earned wages in taxes, before you even see your paycheck.**

Now, most people believe in paying their “fair share” of taxes, but do you think that nearly 40% is your fair share?

The late Arthur Godfrey once said, “I’m proud to pay my taxes. But I’d be just as proud to pay half as much.” Me too!

Do You Know WHY our Government uses “Payroll Deduction” as its Method of Collecting Income Taxes?

Here’s an educated guess…

What if you received $1,000 in every paycheck, and then as soon as you got it you immediately had to write a check to the government for $376 for your taxes (37.6%), leaving you only $624 out of $1,000 to live on? What do you think would happen?

There would be a taxpayer revolt that would make the Boston Tea Party look like child’s play, that’s what would happen!

So what does our government do? They make your employer withhold all those taxes from your wages first, and then just give you the part that is left over.

That way, they’re hoping you won’t realize how much of a huge bite Uncle Sam is taking out of your pay!

Now, IMAGINE for a Moment…

How much less would you pay in taxes if you only had to pay Uncle Sam a percentage of **your "leftover money,"** like businesses do, instead of paying a percentage of the gross wages you earn, like you do now? You would pay a whole lot less in taxes, that's for sure!

What if the IRS would let you treat your <u>home</u> like an "office-building space" (which is tax-deductible), and what if they would let you treat your personal living expenses like "business expenses" (which are also tax-deductible)? Do you think that would make a difference in the taxes you pay?

Yes, a major difference!

Here's the Good News
You Have Been Waiting For!

It **is** possible for an **individual** to get most of the **same tax breaks** as business owners get!

But before we continue, I have to ask you an important question…

Would you mind if it turned out to be both 100% legal and really **EASY to cut your taxes in half?** Would it be okay if what I'm about to share with you is not at all complicated?

I'm serious. Some people really believe, "No pain, no gain." And many believe that if it has to do with taxes, "if it's easy and legal, 'my tax guy' would have told me about it." Don't believe either one. They're both wrong, as you soon will discover for yourself.

But first, let me share with you a story that I'm told is true.

Back when Coca Cola was a new company, their total business was selling syrup to "soda fountains," which then combined it with carbonated water to make a soft drink called a "Coke."

One day a visitor called on the Chairman of the Coca Cola Company in Atlanta, and said to him:

> *"If you decide to act on the idea I am about to share with you, will you give me one-half of one percent of the profits you make from it?"*

The Chairman agreed, of course, because if the idea was a good one, he'd gladly pay ½ of 1%, because Coca Cola would still get to keep 99½ %. And if the idea wasn't any good, it wouldn't cost him anything. So the visitor leaned over and whispered these two words:

“Bottle it.”

Those two words very quickly made the visitor a multi-millionaire.

Was the idea complicated? **Of course not.**

Was the idea powerful? **<u>Absolutely</u>**!

Why did I want to tell you that little story? Because, just like “Bottle it,” what I am about to share with you is **not complicated**, and is **very, <u>very</u> powerful!**

What’s the easiest, and most powerful, way to slash your taxes by up to 50% or more?

Well, let’s take a look…

A. If a **Home** and **<u>Personal</u>** **Expenses** are ***not*** tax-deductible, but

B. If a **Business** and **<u>Business</u>** **Expenses** ***are*** tax-deductible, the obvious conclusion is…

C. **Your Home**
+ Owning a Business

= *Tax-Deductible HOME BUSINESS!*

Your **home**, as the location of your business, becomes just as tax-deductible as a suite of offices in a high-rise office building.

And the expenses associated with that business, are just as deductible as the expenses associated with an “office-based” business.

[IRS Code, § 290 A]

If you’re wondering when this amazing new set of tax laws were passed and why you haven’t read about them, let me surprise you: **Nothing in this system is new**. Seriously! These Tax Laws, Tax Codes and Tax Court Rulings have been in place for years, in most cases.

But when you’ve finished this system, you will have a thorough understanding of two things that the vast majority of American taxpayers do not understand in the least:

- Exactly what the tax laws allow, and
- How to qualify to use them to reduce your own taxes to the legal minimum.

This information, as you will soon learn, could be **worth hundreds of thousands of dollars to you over your lifetime.**

If you already have a home-based business, Financial Matters Network, Inc. can provide you with several additional tax and financial resources that could help you with both your business and your personal life.

See page 195 to learn more about how you can take advantage of these value added products and services.

Chapter II

A Home-Based Business Could Legally Qualify You for *Thousands* of Dollars in Tax Breaks!

This is the equivalent to “Bottle it,” as we discussed in Chapter I. It’s **uncomplicated** like “Bottle it.” And it is just as **powerful** as “Bottle it!”

But many people who don’t have a home-based business usually don’t want to start one. Why? They’re too busy at their job trying to earn enough after-tax money to make ends meet. You have a job, right? You know what the word JOB stands for, don’t you? My friend and best-selling author Robert G. Allen, who wrote the Foreword to this manual, says a J.O.B. stands for **J**ust **O**ver **B**roke!

First we chuckle at that, but then we realize it’s TRUE! For many of us, the word should be spelled **JUB** for **J**ust **Under B**roke since, most months the **‘outgo’ exceeds the ‘income’** and debt continues to climb.

That’s why the Average American Household today holds 2.5 jobs! Isn’t that sad?

But it doesn't have to be this way!

You are about to learn several things you didn't know before, and you are about to discover that several things you thought you knew about home businesses and the tax law, just are not correct. For example:

Myth #1:

"My CPA told me that I have to show a profit in two out of every five years, or else I'll lose all my tax-deductions."

The Truth:

That's what the IRS calls the "hobby loss rule." But you don't have "an income-producing hobby," you have a **business**. What's the difference? For one thing, to qualify as a bona fide business, you only have to prove your **intent** to produce a profit. You can claim losses year after year when you show that you have the **intent** to produce a profit.

[IRS Regulation 1.183-2(b)]

NOTE: In just a few pages, we will show you exactly how to prove your 'profit intent.' A simple Business Plan is one key to satisfying many of the IRS's requirements. See Appendix F for a draft of a simple Business Plan that meets all IRS criteria.

You've heard of Amazon.com, right? How many millions have they lost, and for how many years? They got to write-off all those losses for all those years on a row, **why**? Because they proved they had the <u>**intent**</u> to produce a profit, <u>and you can too</u>!

<u>Myth #2:</u>

*"I can only write-off a room and the equipment and furniture in it if I use it **exclusively** for my business."*

<u>The Truth</u>:

That's the IRS's "Exclusive Use Rule." As you'll soon learn, that restriction applies primarily to home-businesses providing only ***Services***, as opposed to home-businesses which also market ***Products***. **[IRS Code, § 280 A(c)(2)]**

Also, "incidental personal use" does not negate the Exclusive Use Rule. (i.e., You could use your <u>business</u> computer occasionally to check sports scores or to send an e-mail to a friend without running afoul of the Exclusive Use Rule.)

<u>Myth #3:</u>

"I've been told that the amount of my write-offs can't be any greater than the amount of money I make in my home-business, so if I'm not making much from my home-business, why bother with all of this?"

<u>The Truth</u>:

Whoever told you that (maybe your own uninformed CPA!), only told you half the story. The truth is this: In <u>only one category</u> (called Indirect Expenses) the amount of write-offs can't be any greater than the total revenue from your home business (although losses in excess of revenue <u>can</u> be rolled-forward for use in a <u>subsequent</u> year).

However, many, many **other** expenses may be deducted well **in excess of the revenue** from your home-based business.

It is quite possible, for example, for a person running a home-business that produces only $1,500 in revenue, to be able to legally claim tax deductions worth up to $5,000 or more. It all depends upon your specific circumstances, which we'll discuss later in this system.

"Intent to Produce a Profit." How Can You PROVE it to the IRS's Satisfaction?

Any company, including the one based in your home, can legally write-off business losses year after year, in many cases, when you show you have the INTENT to produce a profit.

The requirements are not difficult to meet, when you know what the IRS looks for, which we are about to reveal.

IRS Tax Auditors use EIGHT *SECRET "RELEVANT FACTORS"* to determine whether or not YOUR business has an "intent to produce a profit." **[Source: IRS Regulation 1.183(b)]**

Well, They are NOT ‘Secret’ Any More, because HERE THEY ARE!

1. **Expertise of the Taxpayer or his/her Advisors.**

   You, personally, do not have to be an expert, even in your own business category, in order to satisfy this “relevant factor.” If your company provides conference call ‘training calls’ and you participate in them regularly (at least a few of them each month), your long-distance phone bill will document your “effort to establish expertise.” If your business is an MLM and you “three-way” calls into your upline, these calls document your use of “Advisors.”

2. **Time and Effort the Taxpayer puts into ‘Running the Business.’**

   Five long-distance business-related calls all made on the same day, is not nearly as good as five calls made on separate days. An “active” long-distance call log, receipts for postage, ordering of business promotional products and literature, etc. all provide evidence that the business is “active” and “ongoing.”

3. **The Manner in which the Taxpayer Carries on the Business Activity.**

   If all of your “business activity” is conducted over lunch with friends or colleagues, or at sporting events, or at other places of entertainment, the IRS will likely be suspicious regarding your satisfaction of this “relevant factor.” So hold meetings, make presentations, mail offer-letters, and have customers and prospects. In other words, actively run your business.

4. **Success of the Taxpayer in Carrying on Other Similar <u>or</u> <u>Dissimilar</u> activities.**

   First of all, this is 1 of 8 "relevant factors" the IRS looks at, so if you meet the other 7 criteria, but not this one, in all likelihood this one will be "overlooked." This "relevant factor" does <u>not</u> mean that, in order to deduct expenses associated with your current business, you must have been profitable conducting a business in the past. What this does mean is that you are able to show that you've been financially successful at <u>something</u> business-related in the past. This "relevant factor" will not likely be considered relevant if this is your first attempt to run a home-business.

5. **Expectation that Assets Used in the Business Activity may Appreciate in Value.**

   What this means is that if your business becomes very profitable over time, the assets of the company will likely be worth more (appreciate in value). But don't get hung up on this "relevant factor," because it is the most <u>subjective</u> of the factors, and thus should carry the least weight.

6. **Taxpayer's History of Income or Loss with respect to the Activity.**

   If you run the same business (the "Activity") year after year, and it loses money year after year, you're going to have a hard time satisfying this "relevant factor." So, if your business has lost money for three or four years or so **in a row**, and if the amount of the loss is not decreasing, then **change businesses**.

   If your "losing" business is an MLM, try a different MLM or an <u>additional</u> MLM, for example. Then the counter starts over regarding "number of losses in a row" because you'll be starting a **new** business.

7. **Amount of 'Occasional Profits,' if any.**

   If you write-off $30,000 a year in business expenses, year after year, but once every few years you show a "profit on paper" of $200, the IRS will likely question whether the Activity is in-place with an "intent to produce a profit," **or** with "an intent to produce tax write-offs."

   Use common sense. Congress gave us these "tax breaks" in hopes that some of us would start businesses that would become extremely profitable – and, thus, we'd become big tax-payers. So if your business does not show a reasonable profit at least some of the time, change businesses. (See answer to Factor 6, above.)

8. **Elements of Personal Pleasure or Recreation.**

   Okay, pretend you are an IRS examiner. If a taxpayer deducts his golf club greens fees, theater tickets, dining expenses, vacations (i.e., "business travel") and hockey tickets as business expenses, but shows minimal ability to meet the other 7 "relevant factors," what would you think? The answer is obvious. You'd think he's claiming to have a home-business, but only in order to write-off his "personal pleasure" and "recreation" expenses.

   When deciding whether or not to deduct an expense or cost, ask yourself, "If I were an IRS Auditor, how would I interpret this?" The word "Reasonable" provides a great deal of useful guidance.

Re-read the above 'Relevant Factors' more than once. Through them the IRS provides great insight regarding how you must set-up and conduct your home-business, so that you can qualify for the full range of tax advantages available to you.

Follow These Steps and You Will Meet All 8 'Relevant Factors'

STEP 1: Have a "Business Plan."

This is, by far, the most important step in addressing all 8 of the IRS's "Relevant Factors." This is not as difficult as it may seem, because in the back of this system (Appendix F) we provide you with your own fill-in-the-blanks template for producing your own IRS-qualifying Business Plan.

STEP 2: Keep up with changes.

Tax Laws, Tax Law Interpretations and Tax Court Rulings are in constant motion. That means home-business tax-law is continually being clarified, modified and changed. ***By owning this system, you qualify to receive FREE web-based, home-business tax law updates - FOR LIFE***. See page 195 to learn how to enroll in this valuable service.

STEP 3: **Document your activity.**

If the business you are in conducts Conference Calls for Training or Sponsoring, participate in those calls on a regular basis - at least once a week or so.

Why? Because the "Long Distance Call Detail" section of your phone bill will document, for the IRS, your "consistent efforts to learn and succeed in your business." This especially addresses IRS "Relevant Factor" #1.

STEP 4: **Order your company's products** on a regular basis for your own personal use, to use as samples and to use for "demo" purposes. Order promotional and marketing materials too. This will help you meet several of the IRS's "Relevant Factors."

SPECIAL NOTE: In Chapter XII we're going to show you how to put <u>extra cash</u> in your pocket <u>every month</u> from your "day job," just for having an active home-based business. You will learn how to get Uncle Sam to essentially 'reimburse you' for up to **hundreds of dollars per month** for marketing costs and other expenses associated with the running of your business.

STEP 5: **Have a customer and/or prospect list**.

Make sure you "work it," of course. Just having a list of names will satisfy half the IRS's requirements, and copies of your letters and e-mails to them, along with phone call notes, will satisfy the other half. This is easy - just click "save" on your computer every time you send a letter, memo, fax or email.

STEP 6: **Actively work your business**.

Be ready to show the IRS your business card, flyers you've posted or mailed, scripts you've used for telephone marketing and/or advertising you've run.

STEP 7: **Re-read this tax-reduction guide** every couple months, at least at first, to make sure you understand all of the relevant aspects of home-business tax law.

STEP 8: **"Do not try this at home,"** as the saying goes. Even if you've been doing your own taxes for years, or if Uncle Harry always helps out, **use a tax pro** **to prepare your taxes**, and **insist** on one who **specializes** in **home-business tax-law**.

Chapter III

How to Convert
Non-Deductible *Personal* Expenses
into
Tax-Deductible *Business* Expenses

The IRS now concedes that "a business is a business," no matter what its size, whether or not it makes a profit, or where it is located.

That means as the owner of a small, part-time business run out of your home you are to be treated no differently, for tax purposes, than the owner of a large business that is run out of a huge office building.

With a home-business, your <u>home</u> is your <u>office building</u>, and the costs to maintain it then become tax-deductible expenses.

What Exactly Are the Personal Expenses You Can 'Convert?'

As you will see on the next page, it is a V E R Y long list!

Here's a <u>partial list</u> of just ***some*** of the tax-deductible expenses that businesses legally and routinely write-off, and just **some** of the HOME-based business expenses that YOU can legally and routinely write-off, too. **[IRS Code, § 280 A]**

Legal **Business** Deductions		Legal **HOME-Business** Deductions
✕	Mortgage Interest or Rent	✕
✕	Gas, Electric, Water and Sewer	✕
✕	Cleaning Crews to Dust, Vacuum and Empty Trash	✕
✕	Computers, Copiers, Fax Machines and Telephones	✕
✕	Paper, Pens, Ink Cartridges and even Postage	✕
✕	Desks, Sofas, Coffee Tables and other Furniture	✕
✕	Painting, Wallpaper, and other Repairs/Remodeling	✕
✕	Phones Bills, Cell-Phones, Pagers and *Palm Pilots*	✕
✕	Newspapers, Magazines, Books and On-line Media	✕
✕	Plane Fares, Hotels, Meals, Rental Cars while Traveling	✕
✕	Dinners, Ball Games, Theater Tickets & Health Clubs	✕
✕	Security Alarms, Hidden Cameras and Guard Dogs	✕
✕	Health, Life, Dental, Disability and other Insurance	✕
✕	Company Cars and even Boats	✕
✕	Gifts to Charity, Non-Profits, Libraries and Colleges	✕
✕	Contributions to Employee Retirement Plans	✕
✕	Grass Cutting, Landscaping, Snow Removal, etc.	✕
✕	Holiday Cards and Postage and Gifts	✕

It sure looks like the two columns of deductions are <u>identical</u>!

Of course they are identical! Remember that your <u>home</u> is your <u>place of business</u>, and "business expenses are business expenses," whether the business is "housed" in a high-rise office building or in a suburban home.

Let's look more closely at that list and see what it means in terms of tax savings...

Mortgage Interest or <u>Rent</u>

Yes <u>Rent</u>! Finally, renters get a tax-break. Since business owners do not normally own the office building in which they are housed, why should you have to own the house in which your home-based business is based? You shouldn't, and the Tax Court agrees. Renters may now claim a business rent deduction on their Schedule C according to the Business Use Percentage (BUP) of their home. The next section of this chapter shows you how to determine your BUP and how to maximize the number. **[IRS Publication 587]**

Please NOTE: 'Double Deductions' are available for some homeowners. Any taxpayer can claim Standard Deductions on their Form 1040 *or* they may itemize their deductions on a Schedule A (Itemized Deductions). But, as a home-based business owner, you will now be moving many of your personal (Schedule A) deductions over to Schedule C (Profit or Loss from Business). This may reduce your Schedule A "write-offs" to almost nothing. If that is the case with you, consider <u>not</u> filing a Schedule A at all, and take advantage of the "Standard Deduction" option on your Form 1040.

Gas, Electric, Water and Sewer

Of course this not only includes the utilities themselves, but any equipment, repairs, service or maintenance. For example, a new heat pump or furnace, addition of a humidifier, salt for a water conditioner, plumbing repairs, well-pump replacement, fall furnace tune-ups, chimney cleaning, duct cleaning, etc. See Chapter IV for specifics on how much you can deduct.

[IRS Publication 587]

Cleaning Crews to Clean your Office Space

This means you can hire your kids (tax-deductible to you, tax-free to them) to perform business services for you as "employees," instead of paying them a non-tax-deductible "allowance," which you'd pay out of your after-tax wages. (You'll learn specifics about how to do this in Chapter VI.)

Computers, Copiers, Fax Machines and Phones

Contrary to popular opinion, these items do NOT have to be used *exclusively* for business purposes, in order for you to be able to benefit from tax deductions. See next chapter for specifics on *how much* you can deduct.

[IRS Code § 280 F(d)(4) and IRS Publication 956]

SPECIAL NOTE: If you would like details and examples about depreciation and potential tax write-offs regarding business furniture and equipment, as well as laws about converting currently owned furniture and equipment from personal use to business use, consult with a tax professional who specializes in home-business tax law. (Please see page 195 if you need help.)

Paper, Pens, Ink Cartridges and Postage

Of course these items, and all kinds of office supplies, are deductible for any business, including your own home-based business.

Desks, Sofas, Coffee Tables and other Furniture

The "rule of thumb" is "if you use it in your business, it's probably deductible." Think about a traditional business run out of an office building. Don't you think they are tax-deducting the cost of the sofa and coffee table in the lobby, the small round meeting tables and chairs in private offices, and even the coffee maker and water cooler in the kitchen? Of course, and so can you. See Chapter V for specifics on how much you can deduct.

Painting, Wallpaper, Carpeting & Maintenance

Many people think that "upgrades" are deductible but "routine maintenance" is not. *They're wrong*. That is the "tax rule" regarding deductibility of expenses associated with selling a home, but it has nothing to do with home-business deductions. As long as the room is used at least part of the time for business purposes, then at least part of the expense is probably deductible. See next chapter for specifics on *how much* you can deduct. **[IRS Publication 587]**

Phone bills, Cell-phones, Pagers and Palm Pilots

They're all deductible if they're used in your business, but there is one exception, and we'll cover that in detail later in this tax-reduction guide. **[IRS Publication 587]**

Newspapers, Magazines, Books & On-line Media

Again, if you need it for your business, it's probably deductible. You probably don't need *Reader's Digest* for your business, but you probably do need *Upline* magazine, or *Entrepreneur*, or even the daily newspaper since you probably check the Classifieds for competitive intelligence and read the news pages for current news about your product category or about your customers.

Plane fares, Hotel costs, Meals, Rental cars

Expenses related to business travel are usually deductible, so if you can combine your vacation travel with your business travel - and pay attention to the IRS rules - even 'vacations' can be deductible. (All the details are in Chapter VIII of this system.)

[IRS Code § 162(a)(2)]

Lunches, Ball Games, Theater Tickets & Club Dues

This is a tricky category, so please proceed carefully. This is **the** category in which most people are confused, so if you happen to get audited, the IRS will look into this one. But thousands of dollars worth of deductions are available under the right circumstances, so this is definitely worth learning about. (See details coming up in Chapter IX of this system.)

Health, Life, Dental and other types of Insurance

Under the right circumstances (which <u>you</u> can often <u>create</u>) you can deduct not only the cost of the premiums, but also the annual deductibles, co-pays, etc. (Chapter VI of this system spells out details.)

Security Alarms and Hidden Cameras

A business owner needs to protect his or her place of business, and the IRS recognizes that this is a normal cost of doing business (i.e., a legal tax deduction). **By the way, when you think "alarm system," think broadly.** If you install floodlights with motion detectors on your home (which is your place of business), you're installing a security alarm system.

[IRS Publication 587]

Company Cars and Even Boats

A car (or boat) does not have to be used exclusively for business purposes in order to be deductible. Chapter VII will blow your mind, because that chapter alone, will probably save you over 100 times what you paid for this tax-reduction system!

Gifts to Charity, Non-Profits, Libraries and Colleges

This category, frankly, is no big deal because individuals can claim these same deductions. Gifts from you as an individual can be claimed on Schedule A, but promotional gifts from your business can be claimed on Schedule C.

Contributions to Employee Retirement Plans

The rules are the same, whether you are an employee or a home-business owner.

Grass Cutting, Landscaping & Snow/ Leaf Removal

If you owned an office building, these costs would be deductible, right? The amount you can deduct for your home-business depends upon your "Business Use Percentage," which we'll discuss in the next chapter. **[IRS Publication 587]**

Holiday Cards, Postage and Gifts

> They're deductible, as long as they promote your business. That could be done within the context of a Christmas Letter which many people insert in their cards, or you could simply have the card be signed, "Frank and Bonnie Smith and Smith Enterprises."

The vast majority of your *non-deductible* "personal" expenses suddenly can be converted into tax-deductible business expenses **when you PROPERLY set up your home-business,** which we'll cover **next**.

Chapter IV

Maximizing Your
Business Deductions by Using
Your Home as Your Place of Business

Remember all those non-deductible personal expenses we just discussed converting into tax-deductible business expenses? Well, we cannot write-off 100% of those expenses, because, after all, we do live there too.

However, we can get as close to 100% as possible!

What dollar-amount or percentage of those expenses can you deduct? There are three categories of expenses, and different (but easy) methods for calculating each. The only three terms you'll need to understand are:

1. **Business Assets**
2. **Direct Expenses**
3. **Indirect Expenses**

Business Assets:

As you would expect, Business Assets include **business equipment** such as computers, fax machines, etc.; and **business furniture** such as desks, desk chairs, filing cabinets, etc. These assets are deductible at 100%, providing they are used exclusively (or *almost* exclusively) for business purposes.

But the list doesn't stop there. If customers, clients and/or prospects visit your place of business (your home), it would be customary to furnish a lobby (your living room) and perhaps a meeting room (maybe your den), and to have equipment available (such as a television set and a video or DVD player) for making business presentations.

The furniture and equipment in these rooms also are tax deductible (although not at a full 100%) because they too, are partially Business Assets. How much can you deduct?

Let's say (based on your best estimate or upon an "actual-use-log"), your sofa is used 7 out of every 10 times for business purposes, and 3 out of every 10 times for personal, family use. You would likely be allowed to deduct 70% of the cost of the sofa as a **Business Asset.**

Direct Expenses:

Direct Expenses are expenses directly related to the conduct of your business. This category would include office supplies; telephone service; relevant newspaper and other subscriptions; cellular phones, beepers and pagers; security alarm monitoring fees; employee benefits; repairs and upkeep of rooms used exclusively for business purposes, and professional dues. Direct expenses generally are 100% deductible.

Indirect Expenses:

Rent, utilities, lawn care and general maintenance (such as replacing a roof or repainting the exterior of a house), are examples of ***Indirect Expenses.*** The amount of Indirect Expenses you can deduct depends upon the "Business Use Percentage" (BUP) of your home.

First of all, the '**P**' in BUP applies to a **P**ercentage of **what?** It is the ***finished*** square footage of your home (i.e., it does not include such areas as your garage, barn, land, or unfinished basement or attic).

Lets look at an example…

Lets say your home has a Living Room, a Kitchen, a Dining Room, 3 Bedrooms, a Den and 2 Bathrooms. Now, lets say the Living Room, Den, Dining Room and one Bedroom Office are all used in your business – the Dinning Room and 1 Bedroom exclusively (say 35% of your finished area square footage), and the Den and Living Room regularly and primarily – but not exclusively.

Let's say that in square footage, those rooms make up 65% of the "finished" area of your home. Of course, you must have a restroom if your customers and prospects visit your business, so one of the bathrooms could also qualify. If so, your total potential usable square footage is now up to about 70%.

You can include 100% of the square footage of your excusive use rooms in your BUP, and a reasonable portion of the two rooms used regularly and primarily for business in this hypothetical example.

Your **Business Use Percentage (BUP)** would then be between 35% and 70%. That means that ALL indirect expenses are calculated at that rate. Obviously, you should be sure to consider all of your business use in order that this percentage can be as high as possible (pay attention to the upcoming examples for more information).

Imagine that! Legally deducting as much as the majority of your home heating and cooling bill, your rent (**yes, RENT,** not just mortgage interest!), your home maintenance and upkeep costs, even your lawn care, snow removal, etc.! **[IRS Publication 587]**

How do you make your den or living room qualify for inclusion in the BUP even though they are not used exclusively for business?

If you take samples of products that you sell, and display them on your coffee table, you can deduct the square footage that the coffee table occupies, plus a reasonable amount of walking space around it. (Of course, the coffee table ***itself*** may be a tax-deductible ***Business Asset***, as we have just discussed.)

If you meet regularly with customers or clients, and you use the Den primarily as a lobby, then you could also deduct the square footage for the area that the couch and chairs occupy, as well as reasonable area for walking around them.

That’s not much square footage, is it? **But** what if we also need to display products on a table or on a bookshelf in the Living Room, or need space for a copy machine, or some other business need? That is how you are allowed to deduct **Indirect Expenses** associated with square footage in your home, that you **use regularly and primarily for business,** even though not exclusively.

Let’s work with these examples…

Draw a rough pencil-sketch of your own Living Room, Den, or some other room that you plan to use for business right here.

Now, take a colored marker or highlighter, and place a dot at every location where you would display product samples, or use as a lobby area, or other business need.

See how easy it could be to turn a great deal of your Living Room, Den, or other room into a "Product Showroom," "Lobby," or other business use area. If you need the space to fully operate your business, then use it and deduct it.

Here is another example…

If a professional wedding photographer displays his photographs (“product samples”) throughout his home, he or she could have a ***very high BUP.***

When a young couple says they think they want this photographer to photograph their wedding, and they ask to see examples of his previous work, guess what he does?

He takes them on a tour of his home, of course, where examples of his work are hanging on ***many*** of the walls! He has converted almost his entire home into a “product display showroom.”

> By following this strategy, you could potentially write-off the majority of the square footage of several of the rooms in your house, if the use of them is **“reasonable and necessary”** to effectively conduct your business.
> **[IRS Code § 280**

Let’s look at one more example…

Do you have a **formal dining room** in your home? How often do you use it for dining? If you’re like most of us, you use it two, maybe three, times a year, right?

If so, then don't think of it as a "dining room." Think of it simply as another room that you could use regularly in your business.

Let's say you "regularly and exclusively" use your dining room to…

- Assemble mailings to your customers/prospects,
- Process your invoices and payments, and to fill out deposit slips, and
- Store and display the products you market.

The fact that you "clean up" that room twice a year to host a family Thanksgiving dinner or anniversary party does not negate the "Exclusive Use Rule."

The **key words** here are:

- **Ordinary**
- **Necessary** *and*
- **Reasonable**.

If you **Ordinarily** use the room on an "exclusive basis" for your business, if it is **Necessary** to use that room in the conduct of your business (in your opinion), and if it is **Reasonable** to conclude that the room is ***primarily*** used for business, that room could meet the BUP requirements.

Please Note: The **key word** here is "**Reasonable**." Consider an office conference room that is occasionally used to throw a Baby Shower for an employee; that action does not disallow the conference room as a legitimate business deduction, does it? Of course not.

Are you catching the drift? Let the business e x p a n d to encompass as much of your home as is Necessary and Reasonable. Can you see why a mansion would probably have a much lower BUP than a small house?

How about the <u>non</u>-finished square footage of your real estate property? Let's say someone wanted to be able to legally tax-deduct some of the cost of repairing and repainting her barn. Now, a barn is not normally considered a part of the "finished area" of a home, so it would not be included in the BUP calculations. What would you have done?

What she could do is to simply begin storing her home-business product samples, inventory and supplies in the loft of her barn. What's another word she could now use for her "barn?" How about "warehouse," perhaps? Maintenance and upkeep of a business warehouse or storage area ***is*** tax-deductible! Not the whole 100%, of course, but a "reasonable percentage." **[IRS Code § 280 A(c)(2)]**

Don't have a barn that needs repairs? How about the garage? The workshop? You get the idea.

Keep thinking like a business owner who rents an office building…

If an office building has a security alarm system, the costs of installation, monitoring and maintenance are fully deductible, right? Of course.

How about your home-based business? Does your home have a home security alarm system? If so, the installation cost, maintenance and monitoring fees could be tax-deductible.

You **don't** have a home security alarm system? Do you have a dog that barks whenever someone comes near the home/business? **Your dog could be your alarm system**.

Many auto-parts "junkyards" have "junkyard-dogs" for their "security systems." Both the owner of the junkyard <u>and you</u> could tax-deduct the costs of dog food, vet bills, vaccinations and yearly dog license, when the dog qualifies as your security alarm system.

[IRS Publication 587]

One more example… Would a business be allowed to legally deduct the cost of a pest control company coming in regularly to trap mice and other nasty critters? Of course. Well, do you have a cat? Don't answer that too quickly! If they catch mice (or even if they scare them away) **what you <u>may</u> have is a "rodent control system."** If so, your cat food, vet bills, vaccinations and pet license, all may be tax deductible!

These are just examples. Don't claim these (or any other) deductions without the advice of a tax professional who **specializes** in home-business tax-law. He/she can advise whether any particular deduction in this Guide applies to your specific situation.

Note: Here's One Exception to the BUP Formula

The IRS rules about deductibility of your **telephone bill** are a little bit different. **[IRS Publication 587]**

Your **<u>base</u>** phone charges are **not** tax deductible, <u>period</u>. "Base phone charge" refers to the amount you would pay if you had no long distance calls, no second line, no add-on services like call waiting, call forwarding, caller ID, 3-way calling, etc. The cost of minimal phone service = your "base phone bill."

Even though your “base phone bill” is ***not*** deductible, your “add-on” services can be 100% deductible if you have them in order to facilitate the operation of your business, which of course is why you would subscribe to these optional services, right?

Of course, every long-distance call must be annotated on your monthly phone bill as either a business call (“B”) or a personal call (“P”). If you do business with all of your family and friends, then virtually all of your long-distance calls could be deductible. Just make sure the primary purpose of your call is to discuss business, and let the secondary purpose of your call be “personal chat.” Do this, and many of your calls to family and friends can be legally deductible.

Suggestion: If you are in a network marketing business, enroll your family and friends in your “downline.” You will be able to easily prove the “business intent” of many of your long distance calls.

Oh, by the way, who determines what the “primary purpose” of the call is? **You do!**

You Can Even Write-off Your RENT !

Yes, it is true! When you have a home-based business, you can legally deduct either the BUP of your mortgage interest **or your RENT**. It doesn’t matter!

Does a 'traditional business' have to own its office space in order to deduct it? Of course not, so why should you? You don't.

Finally *renters* can get the same tax deductions their home-buyer friends get! Is this a great country, or what?

Since your home is your place of business, does it matter whether you own or rent your "office space?" Again, of course not!

You can deduct the "Business Use Percentage" of your mortgage interest **or** your rent payments, ***either one***!

Deduct Newspapers, Domestic Help and Gardeners too!

Yes, again, it's true! If reading newspapers and magazines is essential to running your home-based business, which is highly probable, they could be tax deductible business expenses, just as they are for businesses based in office buildings.

Also, a traditional business can tax-deduct the costs of janitorial service, so likewise, the owner of a home-business can tax-deduct the BUP of house cleaning expenses.

Does a **traditional** business get to write-off the costs of landscaping, grass cutting, leaf and snow removal, driveway resurfacing, trash collection, etc., around the office building? Of course. Well, if the "business use percentage" of your home is 70%, for example, shouldn't **you** get to write-off 70% of **your** landscaping, grass cutting, leaf and snow removal, etc.?

The answer is a resounding **YES!**

Hold On, We Have Barely Begun Saving You Money on Your Taxes!

If you find **this** information amazing, just wait until you read the rest of this tax-reduction guide.

You are about to learn some tax reduction strategies your tax preparer probably hasn't even thought about – unless he or she is a seasoned expert in home-business tax-law. And rest assured that every single deduction is 100% legal. Remember, we are even citing the sources to prove it!

Pull out a pencil and grab a calculator and look over to page 69. Let's estimate how much of YOUR personal home expenses can be converted into YOUR tax-deductible business expenses.

If you have difficulty finding a tax preparer that **specializes** in small or home-based business tax law, make sure you read page 195. We will help you locate a qualified professional that understands all these great home-based business benefits.

Converting YOUR Personal Expenses into YOUR *Estimated* Business Deductions

Calculating Your "Business Use Percentage" (BUP)

1. Total ***finished*** square feet of your home = A: ________
2. Total square feet used in your business = B: ________
3. B ÷ A = BUP BUP: ______%

Estimating Your NEW Tax Deductions

Expense Category	ANNUAL Cost	Conversion Factor	Estimated Tax Deduction
Mortgage or Rent	$__________	x BUP%	$__________
Gas	$__________	x BUP%	$__________
Electric	$__________	x BUP%	$__________
Water/Sewer	$__________	x BUP%	$__________
Trash Collection	$__________	x BUP%	$__________
House Cleaning	$__________	x BUP%	$__________
Yard Work	$__________	x BUP%	$__________
Leaf/Snow Removal	$__________	x BUP%	$__________
Deck Treatment	$__________	x BUP%	$__________
Driveway Repairs	$__________	x BUP%	$__________
Security Alarm/Dog	$__________	x BUP%	$__________
Pest Control/Cat	$__________	x BUP%	$__________
Repairs/Maintenance	$__________	x BUP%	$__________
Business Supplies	$__________	x 100%	$__________
Postage and Courier	$__________	x 100%	$__________
Subscriptions	$__________	x 100%	$__________
Cards & Stamps	$__________	x 100%	$__________
Internet Access Fees	$__________	x 100%	$__________
Books/Magazines	$__________	x 100%	$__________
Cable TV Service*****	$__________	x 100%	$__________
Phone Bills******	$__________	x 100%	$__________
Other	$__________	x ??%	$__________

⇩ ⇩

Current Expenses = $__________

Amount to be Converted into Business Deductions = $__________

* For channels related to running your business
** Excluding "base amount" for 1st phone line.

There Are Dollar Amount Limits on SOME of these Deductions

Deductions for expenses falling into the **Indirect Expense** category (rent, utilities, repairs, landscaping, etc.) are limited by the amount of net income earned by your home-based business.

For example, if your home-based business earned a net income of $4,300 after all other expenses, your total deductions from these Indirect Expenses for that tax year may not exceed $4,300. However, you never lose these Indirect Expense deductions because they are carried-forward for use in the subsequent year.

HOWEVER, deductions for all other expenses **are allowed** to exceed the amount of net income generated by your home business, allowing you to show and deduct losses on your tax return.

Chapter V

Converting
"Personal Property" into "Business Assets"
and
Acquiring New Business Assets

As mentioned in the last chapter, an "office-building business" would be expected to have a sofa, coffee table, lamps, etc. in its lobby for the use of customers and prospects visiting the office, right?

If you have customers and prospects visiting your home-business, you have the same needs - and the same tax deduction rights.

Let's use a sofa for our example. You could either "convert" a currently-owned sofa from "Personal Use" to "Business Use" or you could acquire a new sofa as a "Business Asset."

For "converting," the calculation goes like this…

First you determine the approximate value of your sofa at the time of conversion. Then you estimate the percentage of business-use versus personal use of the sofa. Next you multiply the value times the percentage for business-use. The resulting number is then depreciated over a seven-year period.

An example will help to clarify…

Let's say your sofa was purchased new for $1,000, and today it's worth about $700. And let's say out of every 10 times the sofa is used, 6 will be for business and 4 will be for personal use (thus, business use = 60%). Next you multiply $700 by 60%, and the result is $420. Now, since you are required to depreciate the "asset" over a 7-year period, you can claim 1/7th or more of $420 (which is $60+) on each of your next seven tax returns as Asset Depreciation.

The tax law is **much more liberal** when you **buy** a sofa for business use, rather than **converting one** from Personal use to Business use. By the way, it doesn't matter whether you purchase a new sofa or a used sofa. (Could this be a way to collect antique furniture while writing-off a large percentage of the cost?)

After your business is established, if you bought that same sofa for $1,000 (whether it was new or used), Uncle Sam actually gives you a choice of two methods you can use to get your tax benefits.

- You can choose to multiply the $1,000 by your 60% business-use (which = $600), and then depreciate that $600 amount over seven years. (Same as in the example above, except in this case you get an $85+/year deduction for Asset Depreciation instead of only $60+/year.)

--- or ---

- You can choose to deduct the entire 60% of the $1,000 purchase (which = $600) ALL in the same tax year in which it was placed into service.

If you need tax deductions this year, you might choose the second option, but if you do not need the deductions this year, the first option might be a wiser strategy. Be sure to consult with your tax professional **before** purchasing any asset that will be used in your business.

Note: The depreciation period is only FIVE years for electronic equipment such as:

- Computers and peripherals
- Phones and phone systems
- TVs, VCRs, DVD players, tape players and CD players
- Photo-copiers, fax machines, scanners and printers.

By the way, items of furniture or equipment which cost less than a few hundred dollars, may be considered as “supplies,” and, thus, “written-off” as business supplies and not subject to the multi-year depreciation rules relating to business equipment and furniture.

For example, if you purchase a filing cabinet for $200, you do not have to depreciate it over a 7-year period, or if you purchase a new VCR for $300 you do not have to depreciate it over a 5-year period.

Don't forget…

In the example of the sofa discussed above, not only do you get a tax deduction for the sofa itself, but you can also include the square footage it occupies (plus "a reasonable amount of walking space around it") in the calculation of your BUP – the percentage number you use for writing-off utilities, rent, etc.

You might want to provide your tax advisor with a sketch of each room of your home, including dimensions of the rooms themselves and dimensions of the furnishings in them. He or she can then help you compute your BUP, and the depreciation for your "business assets."

Assets and Supplies in the Exclusive Use Areas

Of course, the assets (equipment, desks, chairs, etc.) and the supplies (items worth less than a few hundred dollars) in your exclusive use office, and other such rooms in the home, are 100% deductible, whether they were purchased before you went into business (converted assets and supplies) or after you went into business.

The key difference is that assets (new or used) purchased and placed into service after or as you go into business will qualify for the Section 179 Expense Election; which means that you can deduct the entire BUP of the asset cost (as long is it used more than 50% for business) whether it is totally paid for or not (up to $24,000 per year).

If you are the owner of this Ultimate Tax Reduction System, you automatically qualify for FREE lifetime web-based, home-business tax law updates. This up to $1,000 value is yours at no cost.

Please see page 195 for complete instructions on how to take advantage of this valuable benefit.

Chapter VI

Employ Your Family Members, and Your Tax Deductions Could SOAR!

Hire your kids instead of paying them an allowance!

Can a business write off the costs of janitorial service? Of course! **[IRS Code § 162(a)]**

Since you have a business based in your home, **hire your kids** to vacuum, dust and take out the trash.

[Tax Court Memo 1991-50 in Jordan v. Commissioner of the IRS]

The expense is <u>tax-deductible</u> to ***you***, and the income is <u>tax-free</u> to ***them***. **[IRS Regulation 1.162-7(a)]**

The tax-free limit was $4,550 per child for year 2001 and is $4,700 for 2002. The amount is equal to the "Standard Deduction."

[Rev. Proc. 95-53 and IRS Code § 63(h)(2)]

A limitation is that they must be at least 6 years of age.

[Tax Court Ruling in Eller v. IRS 77TC934; Acq. 1984-2 C.B. 1]

And, if they are family members under 18, they are exempt from payroll taxes **[IRS Code § 3121(b)(3)(A) and § 3306(c)(5)]** and the business is not required to withhold or to pay Social Security and Medicare taxes. **[Tax Court Ruling 48 TC 439, 450 (196) in the case of Denman v. IRS Commissioner]**

In order to audit-proof this aspect of your home-business deductions, use a formal Employment Contract to hire your family members. You'll find a sample fill-in-the-blanks Employment Contract in Appendix B in the back of this system.

In order to qualify, the wage-rate has to be "reasonable and customary" within your region of the country and within your industry for the type of work being performed. **[Revenue Ruling 73-393]**

So you **cannot** pay your kids $100 an hour for taking out the trash. How do you establish what is "reasonable and customary?" Get an outside company to give you a written estimate for the work to be performed, and then pay your family member approximately that amount. Or determine what a reasonable person might pay an employee or outside contractor for such services, and pay a similar wage to your family member. **[IRS Regulation § 1.162-7(a)]**

The kids (as employees) have to document what they did to earn the money, **[Revenue Ruling 73-393]** so have them fill out a simple "work log" with headings like:

- Date they worked
- Type of work performed
- Amount of time spent working
- Hourly rate you paid them

** Pay Attention Here **

We're about to show you how to pay for …

- The **car** your high-schooler wants
- Designer-label **clothes** the kids demand
- **Movie and Concert tickets**
- A High School **graduation trip**
- College **tuition**, books and supplies
- Your daughter's expensive **wedding**,
- And lots of other "personal," normally "non-deductible" out-of-pocket expenses

ALL in PRE-TAX Dollars!

Here's how you can do this…

The tax-deductible $4,700/year Uncle Sam lets you pay your children as employees, is equivalent to $90.38 per week!

But, you say, "Who gives their kids an $90.38/week allowance?" YOU will now! And here's why…

Let's say you come up with the tax-free limit of about $90.38 per week worth of home-business related "chores" for them to do. After they turn-in their "work log," you then pay them by check.

So, you'll have to open a separate checking account for them to deposit and cash payroll checks. Of course you will deposit every week's $90.38 paycheck into that account. Make sure it's an interest-bearing account. (You will see why in a minute.)

The bank will require it to be a "joint account" with you, since they are *minors*. Although it is technically a "joint" account, only <u>you</u> will be authorized to make withdrawals or to write checks on that account, since the child is a minor.

Reader Alert!

Here is Where It Gets REALLY Interesting…

The law requires you to pay them the wage they earned, in order for you to be able to deduct the amount as a business expense.

But the law does not restrict how that money is used after it is paid! **[Revenue Ruling 73-393]**

So, you simply tell your child,

> *"I will withdraw $10 (for example) out of each week's pay for you to spend any way you wish, however, the other $80.38 will stay in the (interest-bearing) account to be used by you to pay for your________."*

Fill in the blank with words like car, graduation trip, wedding, or whatever you like.

Did you ever, in your wildest dreams, anticipate that you would be able to pay for school supplies and tennis shoes, or pay for cars, trips and weddings out of pre-tax dollars? **It's true! It's real! And it's 100% legal!**

There's another practical benefit to this strategy, that's at least as important as the tax benefits. Your child/children will begin learning the value of a dollar. Imagine being at the mall to buy a new pair of shoes. The child has to decide whether he or she wants the $150 designer-label brand or the $45 generic brand – knowing that whatever they have left in their checking/savings account will be theirs someday, to pay for their car, trip, college, wedding, etc.

Isn't that a great tax-savings strategy ***and*** a great learning-opportunity for your children?

By the way (in case you are tempted) you cannot charge your dependents for room and board even if they are employees of your home-business, because a parent is legally liable for providing this kind of support for his/her dependent children. Sorry.

[Revenue Ruling 73-393]

Next - Hire Your SPOUSE, So You Can Write-Off Medical 'Out-of-Pockets' for YOURSELF!

What? Well, when your spouse is an **employee** of your home-business, he/she is eligible for "benefits" from his/her employer (that's **you**), and those benefits are deductible as business expenses.

[IRS Code § 162(a)]

So you establish this <u>benefit</u> as "company policy:"

> Any and all employees **and their family members** (again, that includes **YOU**) will be reimbursed (by the home-business) for all medical-related expenses not covered under any other insurance plan he/she may have under another employer.

"Any and all employees" means your spouse and your children, "and all members of their family" includes **YOU.**

A Word of Caution:
Only establish this company policy if your business will be hiring only your own family members. If you establish this policy and then hire non-family members, you will be required to offer this benefit to them as well, and that could defeat the purpose.

So What Just happened?

You just set-in-place a strategy for legally tax-deducting all annual insurance plan deductibles, co-pays for doctor visits, prescription drugs, and non-covered expenses like braces, glasses, contact lenses, dental work, and possibly even cosmetic surgery.

[IRS Regulation 71-588; Plr. 9409006]

No minimum thresholds apply; every single dollar is tax-deductible by the business as an employee benefit cost.

It is important that this "policy" be established in writing, as a legal document. In Appendix C to this system you will find a sample fill-in-the-blanks "Self-Insured Medical Reimbursement Plan," which you may feel free to adopt or adapt, if you wish. **[IRS Regulation 1.105-5(a)]**

A Word About the Level of Your Spouse's Wages

A sole practitioner (Schedule C taxpayer) is not required to pay Unemployment Taxes on the employment of a spouse, however the business **is** required to pay Social Security and Medicare payroll taxes on <u>adult</u> family-member employees.

Since those taxes are calculated based on a percentage of the employee's wages, the lower the wage level, the lower the payroll taxes will be. Even if you employ your spouse at "minimum wage," you qualify to use this medical expense reimbursement tax strategy.

[IRS Code § 3306(c)(5); IRS Publication 15, and IRS Circular E all apply]

Pull out a pencil and take a minute now to estimate how much of your kids' expenses could be paid for in pre-tax dollars, and how much of your out-of-pocket medical costs could become business deductions…

Chapter VII

The Key to Your Largest Single Tax-Deduction May be in Your IGNITION!

Your car, whether you own or lease, probably represents your third-largest monthly expense, coming in right behind **withholding taxes** and your **mortgage or rent**.

In all likelihood, however, **your car *also* represents your largest single source of potential tax-reduction.** So, finding a way to legally write-off a significant portion of your automobile costs, represents a major tax-savings opportunity for you, potentially worth thousands of dollars in new, legal tax deductions.

[IRS Temporary Regulations, § 1.274-5T(b)(6)(1)(B)]

You will probably use the same vehicle for both personal use and business use, so the IRS requires that you maintain a vehicle-use log. But that "task" can be reduced to doing just one simple thing each time you slip behind the wheel.

That's right, the record keeping literally takes about as little time as it takes to fasten your seat belt.

You keep a "Vehicle-Use Log" on your dashboard and, each time you get into your car you simply fill in four items:

Date:	**Destination:**	**Purpose of Trip:**	**Odometer Reading:**
10/11/01	*Local*	*Sales Calls*	*00,000*
10/12/01	*Bank*	*Bsns deposit*	*00,000*
10/13/01	*Post Office*	*Postage for bsns*	*00,000*

That's it. Destination and Purpose of Trip do not need to be specific. For example, under the heading Destination, you can simply fill in "local travel," and under Business Purpose, you can simply write "sales calls." How long could that take? I'd guess about 5-7 seconds, tops! (See Appendix D to this system for a sample Vehicle-Use Log which you are free to reproduce and use for yourself.)

[IRS Code, § 274(d)]

What about "Commuting Mileage?"

The IRS has ruled that travel from your home to a business destination is tax-deductible **if** your home qualifies as a "place of business." **[IRS Revenue Ruling 94-47 & 99-7, and IRS Bulletin 1994-29]**

Of course you will have a qualifying home-business, so you will meet the IRS guidelines.

That's easy, you say, but commuting directly from your home to your regular "day job" is ***not*** tax-deductible, and that's where you put the most miles on your car.

[IRS Code, § 262; Revenue Ruling 90-23, and Internal Revenue Bulletin 1990-11]

That's true, **however**, the IRS's "**Two Business Location Rule**" says that you may deduct the mileage driven "from one business location to a second business location" (i.e., your 'day job').

[Internal Revenue Rulings 55-109 and 99-7, and 1955-1 C.B. 261]

Use this Easy, 4-Step Routine to Meet the IRS Criteria

1. **"Actively engage in your home-business."**
   This can be as simple as placing a business phone call or addressing a business letter first thing each morning, or perform any other "ordinary and necessary" business function **before** leaving home.

2. **Drive to a "necessary business stop" on the way to your regular "day job." Examples include:**
   - Stop at your Bank branch for a business deposit.
   - Stop to make a sales presentation or to meet a business contact.
   - Stop at the Post Office; get mail from your business P.O. Box.

3. **Drive to your "second place of business."**

   (i.e., Your "regular job")

4. **Then reverse the procedure at the end of the day.**

That's it! You have just "commuted" to work and back, but rather than the trip being considered a "commute," for tax purposes, your trip now falls under the **"Two Business Location Rule,"** and is legally <u>100% tax-deductible</u>. The deduction was worth 34.5 cents per business-mile in 2001, and is worth 36.5 cents per mile in 2002. Just make sure you are truly conducting business during these brief stops.

Be sure to take all four steps every day possible. Also, be sure to make four entries into your vehicle-use log each day. All of your mileage can be tax-deductible.

> **A Word of CAUTION:** Some people think (*incorrectly*) that if they conduct home-business activities while at their day job (talk to a co-worker about their MLM business, for example), they can skip steps 1 and 3. Not true. The IRS has ruled, and Tax Courts have confirmed, that if the *primary purpose* of going to the location was to earn a wage, the conduct of your home-business at that location is *secondary*, and thus the trip would be considered to be a *non*-deductible *commute*.

You Get More Than $1,000 in Tax Deductions for Every 3,000 Miles You Drive!

Not taking this deduction is like throwing a $100 bill out your window every time you put 300 miles on your car! Or think of it this way: You could be getting more than $100 in tax deductions for every tank of gas you put in your car.

If you put 12,000 miles on your car commuting each year, following this procedure will make you eligible for around $4,000 in ***new* tax deductions**. This procedure is completely legal, and your vehicle-use log will document the deduction to the IRS' satisfaction.

What About Errands and Shopping?

What about shopping trips and other errands? Yes, there are ways to make those miles tax-deductible also. Let's look at a few examples…

Let's say you take your daughter to school each morning and want to legally turn those trips into tax-deductible business mileage. Pick out a bank or post office that is beyond the school to use for your home-business. Each morning drive directly from home to the bank or post office to conduct "business needs." This becomes the primary purpose of the trip. Then, since the school is on your way back to your place of business (home), you might as well drop off your daughter on the way. Since no additional mileage is involved you do not need to record the stop in your Vehicle-Use Log.

Do you make frequent trips to a shopping mall? This one is easy, because you have so many options to use. If there is a quick-copy center in the mall, you could go to the mall to have copies of your business flyers printed. While you're there, you might decide to do some shopping. Of course the shopping would be the secondary purpose of your trip.

In the above example, you could substitute something else for the quick-copy center – getting stamps for your business, buying office supplies, posting flyers on bulletin boards, handing out business cards, etc.

I know a person whose home-business includes selling jewelry from a discount catalog. So when she goes to the mall, she could be "comparison shopping" (checking to see what price local stores are charging for similar items). That's the *primary* business purpose of the trip to the mall, and in her vehicle-use log she would enter Comparison Shopping under the heading labeled Purpose of Trip. If she also does some personal shopping while there, that, of course, is her secondary purpose, so it is not entered into the log.

You have Two Options for Computing Your Business-Vehicle Tax-Deductions

> **Authors Comment**: Some of what follows is a little bit tedious, but the deductions are worth thousands of dollars for most people. I suggest you read this section slowly and re-read paragraphs as necessary until you get it. The examples I provide will help clarify the complicated stuff. If you find this section hard to grasp, just keep good records and let your accountant deal with it at "tax time."

The IRS gives you the option of determining your vehicle deductions by using the "Standard Mileage Rate" (SMR) method or the "Actual Cost" method. **[IRS Proc. 94-73]**

The Easy Option: The **Standard Mileage Rate** method involves simply keeping the vehicle use log as described before. At year-end, add up all of your business miles, and then multiply that number by the IRS Standard Mileage Rate.

The Standard Mileage Rate changes almost every year (34.5 cents per mile for 2001; 36.5 cents per mile for 2002). If you put 10,000 business miles on your car in 2002, you will have $3,650 in vehicle deductions to write-off on your 2002 Tax Return.

The Harder Option: The **Actual Cost Method** requires keeping track of all of your vehicle operating costs, including depreciation or lease payments, insurance, gas, oil, tires, batteries, maintenance and repairs, car washes, automobile club dues, license and registration fees, and interest on your car loan.

If you choose Option 2, here's how to calculate your actual Vehicle Operating Costs:

1. From your vehicle-use log, determine the total number of miles driven for the year.

2. Next, determine how many of those miles were logged as business miles.

3. Now determine the "business use percentage," by dividing the number of business miles by the number of total miles driven.

4. Finally, apply that percentage to the total actual vehicle operating costs for the year, and the resulting figure will be the amount you can write-off on your Tax Return.

For example, if you put 15,000 miles on your car during the year, and 10,000 of those were "business miles," your business use percentage (BUP) would be 66.6%. So you multiply your total actual vehicle operating costs by 0.666, and you will have determined the amount of tax write-off you can claim using the Actual Cost Method.

Usually when something takes more work, it has more value, but that's not necessarily the case here. Believe it or not, most people come out ahead by using the easy SMR option.

The "actual cost" option could be better if you have a gas guzzler, have frequent and expensive repairs and maintenance, drive an exceptionally expensive car, or if you lease your vehicle.

Regardless of which method you select, you can also deduct 100% of parking fees and tolls paid while driving for business purposes. **[IRS Proc. 90-59, and IRS Bulletin 1990-52 § 4.04]**

And, regardless of which method you select, you can also deduct the business-use percentage of your Vehicle Loan Interest and Personal Property Taxes on your Schedule C. **[IRS Proc. 95-54 § 5.04]**

BIG Vehicles Can Mean BIGGER Tax Write-Offs!

Some of the most popular SUVs like Chevrolet Suburbans and Ford Excursions are large enough, in terms of gross vehicle weight (GVW), to be exempt from the limitations to expense deductions the IRS imposes on other vehicles under its "luxury auto rules."

These larger vehicles, as “business property,” allow you to write-off thousands more on your tax return each year than other vehicles, based on your business use percentage.

You “max-out” at $24,000 in total expense election of all assets for tax year 2001. Just like the SMR, this too is subject to change by Congress each year.

Some “Non-Business” Miles *Also* Can be Deducted

Most people elect to use the Standard Mileage Deduction (SMD) method of computing auto deductions due to its simplicity. If you use the SMD method, you can also deduct miles spent doing charitable work, miles going to and from medical appointments, and miles for moving to a new job location.

The rates tend to change frequently, but for year 2002 the mileage deduction allowances are set as follows:

Business Mileage **= 36.5 cents per mile**

[IRS Proclamation 95-54 § 5.01]

Charitable Work **= 14.0 cents per mile**

[IRS Code, § 170(1)]

Medical Care **= 13.0 cents per mile**

[IRS Proclamation 95-54 § 7.02]

Moving/Relocating = 13.0 cents per mile

[IRS Proclamation 95-54 § 7.02]

What About Depreciation of Your Car?

Claiming depreciation on the car or truck you use for business purposes has huge tax advantages.

If you use the "actual cost method" your vehicle is considered "Listed Property," and thus is subject to special depreciation rules **if** the business use percentage of your vehicle falls below 50 percent before the end of the "recovery period," which is six years.

[IRS Publication 946, Section 280F]

If this happens, you must re-compute the depreciation using the straight-line method **[IRS Code, § 280F(b)(2)(B)]** and any excess depreciation then becomes taxable income.

[IRS Code, § 280F(b)(1) and 168(g)]

However, if you use the SMD method, depreciation is built into the SMD rate, so you are not affected by the 50% rule just discussed.

This may be another reason to use the much simpler SMD method.

What are the Tax Implications When You Sell or Trade-in Your Automobiles?

First of all, you should consider both financial and tax aspects in making the decision to trade-in or to sell.

When you sell a vehicle, you'll usually get a better net result financially than if you trade-in the vehicle. From a tax standpoint, when you sell the vehicle you will report either a gain or a loss on your tax return for the business portion of the vehicle.

If your decision is to trade-in the vehicle, any gain or loss will be transferred into the "basis" ("cost" for tax purposes) of the new vehicle. In the case of a loss, you will not have the option to declare a loss on your tax return. Simply, your basis in the new vehicle will be adjusted upward accordingly. In the case of a gain, you will defer the gain into the new vehicle by adjusting the basis downward.

To determine whether you will have a gain or loss on the sale of your business vehicle (for tax purposes), you will need to compute the accumulated depreciation that has been taken over the business life of the vehicle. This accumulated depreciation lowers the 'basis' or 'net tax value' on the company records.

For Example…

Bill buys a car for $20,000 on January 1, 1997, and uses it 60% for business. The starting basis, or "depreciable basis," of the vehicle is $12,000 (60% of $20,000). For simplicity sake, let us assume that the depreciation allowed for 1997, 1998, and 1999 is $2,000 per year. As of 12/31/99 (three years after purchase of the vehicle), the tax basis of the vehicle is reduced to $6,000 ($12,000 starting basis, minus the $6,000 accumulated depreciation).

If Bill sells his car on 12/31/99 for $8,000, he will incur a business loss calculated as follows:

Since the car is used 60% for business, the business portion of the sales price is $4,800 (60% of $8,000). Since the business basis is $6,000, Bill has a deductible business loss of $1,200. In addition, Bill has a loss on the personal-use portion of the vehicle. However, this loss is **not** tax deductible.

Let's take a look at another scenario…

It is possible that Bill may have been able to trade-in this same vehicle for $12,000 in exchange for a new vehicle with an inflated price and the additional debt or cash obligation for the balance of the new vehicle purchase price.

In this case, Bill would have a "gain" on the disposition of the old vehicle, and that gain would be deferred into the new vehicle by adjusting the basis of the new vehicle.

Since the gain is "carried forward" into the new vehicle, no gain or loss would be reported on Bill's tax return.

Many taxpayers will take the option to calculate vehicle deductions on their tax return by using the 'standard mileage deduction' as indicated earlier. When SMD is used, there is an "implied depreciation" that must be calculated in order to determine if there is a gain or loss on the disposition of the vehicle.

The following table indicates by year the rate to be used to calculate the 'accumulated' depreciation.

That rate has changed 10 times in the past 20 years:

Year	Depreciation Rate
2000-2001	**14.0 cents/mile**
1994-1999	**12.0 cents/mile**
1992-1993	**11.5 cents/mile**
1989-1991	**11.0 cents/mile**
1988	**10.5 cents/mile**
1987	**10.0 cents/mile**
1986	**9.0 cents/mile**
1983-1985	**8.0 cents/mile**
1982	**7.5 cents/mile**
1980-1981	**7.0 cents/mile**

Using the preceding table, you can compute the basis for the vehicle you are selling or trading, which will determine if the transaction will result in a tax gain or loss on the vehicle.

[IRS Proc. 95-54 § 5.05]

No matter how old your car is, or how many miles you've put on it, a vehicle cannot be depreciated below zero. If your depreciation gets down to zero, your SMD continues as before, but with none of the deduction allocated to depreciation. **[IRS Proc. 98-63]**

NOW, Here's How to Increase Your Vehicle Deductions by an *ADDITIONAL 50%!*

The following is a valuable tax strategy if your family has two vehicles, each worth approximately the same value, and if at least two-thirds the total miles driven (on both cars combined) can qualify as business miles.

For example: You drive 35,000 miles, and 30,000 of those miles qualify as business miles. Your spouse drives 5,000 miles, and none are tax-deductible business miles. The cars are worth about $20,000 each.

- Your total "family miles" equals 40,000 miles (both cars combined).
- 30,000 of those 40,000 miles (75%) are business miles.

If you put all those business miles on one car, you will be limited to the expenses and depreciation limits on one vehicle. The other car will receive no tax deductions, because none of the miles qualify as business miles.

However, if you alternate use of the two vehicles, you will still drive 30,000 business miles, but you will put 15,000 of those miles on each of the two cars. Your spouse still drives 5,000 personal miles, but he/she puts 2,500 of those miles on each of the two vehicles.

You may now claim 75% of the miles put on each of the two vehicles, and your vehicle use and depreciation tax-deduction limit increases to $30,000, instead of being capped at under $20,000.

This could result in a 50% increase *or more* in your vehicle deductions!

Chapter VIII

You May Never Take Another Vacation! From now on, You Could Make Them All *Tax-Deductible Business Trips!*

A business based in your home does not need to have any territorial limits. Your customer- or client-prospects may be anywhere in the United States, or North America or even the world.

This means that, wherever you travel **you could be traveling on business,** and reasonable business-travel expenses are tax-deductible, even if tied into personal travel or family vacations! Pay close attention, because the IRS rules about tax-deductibility of business travel are very specific. But they are also very clear, so you should have no problem making sure you are staying within the legal parameters.

The tax law says that anytime your work "requires you to sleep or rest away from your principle place of business" (that's your home), you may deduct reasonable travel and related expenses (such as meals, hotel, rental car, tips, etc.)

[IRS Code, § 162(a)(2) and Revenue Rulings 54-497, 75-432, 63-145, 75-169, 76-453]

The IRS's 3-Part Test

The first step in audit-proofing your business travel deductions is to meet the IRS's '3-Part Test:'

1. The travel must be **usual and customary** within your type of Business.
2. The travel must be conducted with the **intent** to obtain a **direct business benefit**.
3. The travel must be appropriate and helpful to **developing and maintaining** your business.

What is the "51/49% Transportation Rule?"

For travel within the U.S., when you combine business travel with personal or vacation travel, the tax law allows you to **deduct 100% of your transportation costs and lodging…**

- **IF** you spend more than ½ of your days on business, and less than ½ of your days on non-business purposes,

- **And IF** the primary purpose of your trip was business. (Of course, you are the one who determines whether the primary purpose of your trip was business or pleasure.

[IRS Code, § 1.162-2(b)(2)]

What is Considered a 'Business Day?'

Depending upon the method of travel and the length of the trip, getting to and from your destination can take up the majority of a day (or more) each way. Therefore, it is important to know how the IRS defines "business day" which we will cover shortly.

If the primary purpose of your travel is business, the cost of transporting yourself to your "business destination" is tax deductible, whether you travel First Class air, Coach Class air, train, car, boat or even chartered plane.

Once you arrive at your destination, you will incur certain other expenses, such as taxi fare, car rental, hotel, meals, tips, etc.

You may deduct food and lodging expenses for 'business days' even if your trip does not include enough business days for it to qualify as a "business trip." For example, if you make a 5 day trip, but only 2 days are spent on business, you may deduct your meals and hotel for those two days only, but you may not claim any of the transportation costs, because the trip will not have met the 51/49% Transportation Rule discussed earlier.

What About Weekends and Holidays?

If weekend days and/or holidays fall between business days, they are considered by the IRS to be business days. For example, you travel to a destination on Wednesday, do business on Thursday and Friday, and do business again on Tuesday. Saturday and Sunday will be considered to be business days and Monday considered a personal day.

The test is this: Would it be practical to return home for the weekend or holiday days? If so, they are not deductible. But if it would not be practical to return home (due to the expense or the time required), they are considered to be business days, regardless of what you actually do on those days. **[IRS Regulations, § 1.274-4(d)(2)(v)]**

What About Saturday Night Stay-Overs?

Oftentimes, airlines offer substantial fare discounts if a Saturday night stay is included.

Good news for you! **The government actually used common sense in making a determination about this one.**

"If a substantial discount is available by including a Saturday night stay, Saturday may be considered a (tax-deductible) business travel day and Sunday is considered a (tax-deductible) business stay-over day" even if you return home on Monday. **[PLR 9237014]**

When is a Travel Day Also a Business Day?

Even if you conduct no business on the day you travel, it is still a tax-deductible business day **IF** you spend at least four hours in travel. That four hours includes the time it takes you to get to the airport, park, check-in, wait for the plane, fly, disembark, wait for your luggage, get a taxi or rental car and get to your hotel.

[IRS Regulations, § 1.274-4(d)(2)(i)]

As inefficient as airline transportation is these days, just about any trip you take could qualify under these criteria.

So, if getting to and from your destination takes four hours or more, the entire day qualifies as a "business day."

Does It Make Any Difference What Method of Transportation I Use?

Simple answer: No. If you travel by auto, airplane, train, boat or motorcycle, your actual travel expenses are 100% fully deductible if the trip qualifies as "business travel." **[IRS Publication 463]**

Can I Claim My Spouse's Expenses if He/She Accompanies Me to a Business Meeting or Convention?

Expenses of an accompanying spouse are deductible **only if**:

- His/her travel is for a bona fide business purpose (i.e., not just accompanying you),
- He or she is an employee or owner of the business (see Chapter VI), and
- The travel and related expenses would be deductible for him/her even if he/she were making the trip alone.

[IRS Code, § 274(m)(3)]

Special Note: Taking the kids along tends to make the IRS think of the travel as a personal vacation trip, **so make sure the kids also are employees of your business** and that they also have a bona fide business purpose for attending the meeting or convention.

Can I Deduct Laundry & Dry Cleaning?

Yes, if you are required to remain out-of-town for one or more nights, you can deduct the cost of laundering or dry cleaning any clothing required for that trip, **even if you wait and have the cleaning done after you return home**.

[Internal Revenue Ruling 63-145 and 1963-2 C.B. 86]

Let's Summarize the Deductions for Traveling on Business

"Ordinary and Necessary" business expenses include:

- 50% of the cost of all meals,
  [IRS Regulations, § 1.162-2(a)]
- 100% of transportation and lodging,
  [IRS Publication 463]
- 100% of laundry and dry cleaning of clothing used during business portion of trip,
  [Internal Revenue Ruling 63-145 and 1963-2 C.B. 86]
- Telephone calls, both local and long distance,
  [IRS Regulations, § 1.162-2(a)]
- Local transportation from airport to hotel, to customer visits, and back to airport (including taxis, limos, trains, buses, rental cars, etc.), **[IRS Publication 463]**
- All appropriate tips associated with otherwise-deductible expenses. **[IRS Publication 463]**

Keeping Audit-Proof
Business-Trip Records is Easy

This is not difficult unless you procrastinate and "do it later." All the IRS requires is the answers to 5 questions:

1. ***Where*** **Did The Money Go?**
   List each individual expenditure, such as plane tickets, taxi fares, meals (listed separately), tips, registration fees, etc.

2. ***When*** **Did You Spend It?**
   Dates and times of departure and return, as well as date of each expenditure.

3. ***Where*** **Did You Spend It?**
   City you flew to, restaurant you ate in, from-and-to of each taxi fare, name of hotel you stayed in, who you gave tips to, etc.

4. ***Why*** **Did You Spend It?**
   Justify the business purpose of the trip itself, and the business reason for each expenditure. Not everything is automatically deductible. For example, in-room hotel movie rentals and purchases from a hotel room mini-bar are normally not deductible.

5. ***Can You Prove*** **You Paid Your Bills?**
   You'll need copies of paid receipts for hotel stays, transportation expenses, conference fees, and any individual expenditure of $75 or more.

Personally, I even get a receipt for buying the morning paper, because I've developed a habit of getting a receipt every time I buy anything. It's a lot easier to throw away a receipt you end up not needing, than to try to justify an expense without one.

Here's How to Turn this 'Chore' Into a Simple 'Habit'

1. Carry a small spiral-bound notebook in your pocket, with a pen attached and a paper-clip on the back cover.

2. Every time you spend a penny on anything (even non-deductible expenses) record it in your notebook and clip the receipt inside the back cover.

3. Each evening, review your notebook to make sure everything you wrote in your notebook is clearly legible, and write notes on your receipts to remind you three years from now what each receipt was for.

4. Staple or paper-clip that day's receipts together, and put them in a safe place, like your suitcase or briefcase.

5. Start a new page in your notebook for each new day.

Can you see how making this a "habit" can turn a "chore" into a "no-brainer?"

Did you know that in addition to the benefits you will receive from this tax reduction system, you also have access to home-based business Tax Audit Representation and Unlimited Tax Advice, as well as, Credit Restoration and Debt Management Services?

Please see page 195 to learn more about these comprehensive programs.

Chapter IX

Meals & Entertainment
Can be Legally Deductible too!

The IRS lumps-together the broad categories of Entertainment, Business Meals, Business-Related Sports, Recreation and Amusement under the tax heading "Entertainment."

Be Aware of the 50% Rule!

There is one significant difference between tax-deductible entertainment expenses and nearly all other tax-deductible business expenses: When you have qualifying entertainment expenses, they generally are deductible at only 50% of their actual cost.

This change to the tax law was passed by Congress in 1994 to discourage abuse of this deduction and the "three-martini lunch."

Here's How to Determine Whether Entertainment *Is* or is *Not* Legally Deductible…

There are only three terms you must be familiar with:

1. Four-Requirement Test
2. Clear Business Setting
3. Associated Entertainment.

1. "The Four-Requirement Test"

If you meet all four steps of the **Four-Requirement Test** you probably have a qualifying business entertainment expense.

The Four Requirements are:

- At the time you committed to spend the money, you had more than a general expectation of future business benefit.
- During the entertainment, you actively discussed the topic that could produce future business benefit.
- Your principal reason for engaging in the activity was to actively conduct business.
- You incurred the expense to speak with the person who produced your expectation of future business benefit.

2. "Clear Business Setting"

It is not necessary to meet those four requirements if your expenses took place in a **Clear Business Setting**. The IRS has a definition for that, of course.

It says that entertainment occurs in a **Clear Business Setting** when:

- The person you are entertaining knows that you are spending money on him/her in order to directly attempt to further your business interests.

- You spend money on a hospitality suite at a convention where you display products to further your business.

- You have no meaningful social or personal relationship with the person or people you are entertaining.

The IRS considers restaurants, your home, hotel meeting rooms and hotel dining rooms to be "conducive to business discussion without significant distraction." Thus, business entertainment taking place in these locations are deemed to be in a "clear business setting."

Locations the IRS tend to question, relative to "clear business setting," include night clubs, theaters, sporting events and stage shows, because these locations all have distractions that make it unlikely that significant business discussion can take place.

However, although expenses in those settings may <u>not</u> be deductible under the "Clear Business Setting" rule, they may very well qualify under the "Associated Entertainment" Rule.

3. "Associated Entertainment"

The IRS says that "**Associated Entertainment**" is entertainment that is not directly related to the conduct of business, but is **in**directly associated with conduct of business.

For example, entertainment that immediately precedes or follows active conduct of business may be considered "associated entertainment."

Let's say you take prospective clients to the theater and then directly after the event, you take them to dinner and have (to use IRS terminology) a "substantial and bona fide business discussion." The dinner expense falls under Clear Business Setting and the theater expense falls under Associated Entertainment, so both would be deductible at 50% of their actual cost.

Do you regularly go out to lunch with business associates or colleagues? Depending upon the type of home-business you run, business associates might be among your best prospects.

If you 'talk business' at lunch, and if they are casual acquaintances (not close friends), you may be eligible to deduct 50% of the cost of your meal. Or you could "pick up their tab" and deduct

50% of both meals. They’ll get a free meal, but you’ll only spend about the same as you would have spent anyway.

Yes, Even GOLF Could be Deductible
(as can some other sporting activities)

Are you a golfer? Want to deduct greens fees and/or meals in the golf club’s dining room or grill? Golf is one participation sport that can qualify under the Four Requirements Rule. Of course you cannot play golf with the same people every week and still qualify, but if you’re the type of person who likes to take prospects to the club with you, or who likes to call or drop-by the golf course and ask the starter to put you in a twosome or threesome, this is ideal.

Unlike most other sports, golf offers ample opportunity to “hold substantial business discussions” while walking or riding down the fairway, while waiting on the tee for the foursome ahead to putt-out, or while waiting for a fellow player across the fairway to hit his or her shot.

Other activities that might be treated similarly, depending on the circumstances, include sailing, fishing and hunting. And you can probably think of others as well.

Documenting Business-Entertainment Expenses is Not Difficult

The simplest way to document your tax-deductible entertainment expenses is to get a receipt for everything, staple related receipts together, and write, in ink, directly on the receipt (within 24 hours, according to the IRS),

- **The <u>Date</u> the expense was incurred.**
  Generally this means the date of the entertainment itself (i.e., if you purchased season tickets to a sporting event to entertain clients and prospects, you would record the date, etc., of each individual event, as it occurred).
  [IRS Regulation 1.274-5(b)(3)(ii)]

- **The <u>Amount</u> of the expense.**
  The numbers imprinted on the front of the receipt can fade over time, becoming illegible, so write the Amount on the receipt in ink.
  [IRS Regulations1.274-2(b)(1)(i) and Reg. 1.274-5T(c)(2)(iii)(B)]

- **The <u>Place</u> the expense was incurred.**
  Name and location of the venue, as well as the type of event, if not obvious. List the place of the business discussion if the event was "Associated Entertainment."
  [IRS Regulation 1.274-5(b)(3)(iii)]

- **Your <u>Purpose</u> for incurring the expense.**
  Be sure to relate your "why" to your business, of course. Why are you entertaining this particular person, and what business result do you expect to come about as a result?
  [IRS Regulation 1.274-5(b)(3)(iv)]

- **The <u>Relationship</u> to you of the person(s) you entertained** or job title, and other relevant information that explains why you entertained that particular person.

[IRS Regulation 1.274-5(b)(3)(v)]

A Word of CAUTION:
There is an IRS requirement that this documentation be recorded within 24 hours of incurring the entertainment expense, so it is a good habit to do this as soon as you return to your home, office or hotel**.**

Want a Professional Recommendation? <u>Be Conservative</u>!

"Deductible Entertainment" is a tricky area of tax law and it is not the area where most people will get their greatest tax breaks. So most people should be conservative and use good judgment when deciding to take entertainment expense deductions.

But if your own circumstances are such that you could derive large tax savings in this category, be sure to obtain good tax advice from someone highly experienced in home-business tax law.

And be sure to obtain that advice before you incur the expenses, because oftentimes making just a minor adjustment can turn a non-deductible expense into a deductible one.

Note: Tax laws, and the interpretation of them, are constantly changing, such as what qualifies as a business entertainment deduction, so you will need to keep up to date with these changes.

By owning this Ultimate Tax Reduction System you qualify for free web-based, home-business tax law updates, as well as other low cost and free business related offers.

See page 195 to learn how you can subscribe to these valuable products and services.

Chapter X

Don't Dread that Dreaded Word, *"Documentation"*

We learned in Chapter VII how simple it is to keep vehicle-use records, in Chapter VIII how to keep business travel records, and in Chapter X you will learn how to keep easy documentation that meets all the requirements of the IRS.

Here's more good news! Documentation of day-to-day expenses is equally easy. Start by setting up and labeling 9 file folders or 9 shoe boxes or 9 slots in an accordion file to hold your receipts. **Here Are Your 9 Labels** and what goes into each of them:

ADVERTISING and PROMOTION

(These expenses relate to line 8 of Schedule C)

Into this folder place documentation for:

- Paid Advertising: classifieds, radio spots, etc.
- Mailing List Rental Fees & Biz-Op Lists.
- Direct-Mail Costs: postage, envelopes, printing.
- Promotional Materials: prospecting tapes, videos, flyers.

Note: Attach evidence of payment (such as cancelled check) to each invoice.
Author's Note: The IRS only requires Receipts and Proof-of-Payment, but I prefer to attach to each receipt, a copy of the advertisement or promotional piece.

VEHICLE OPERATING COSTS

(These expenses relate to lines 10 and 20 of Schedule C)

Into this folder place documentation for:

- Vehicle-Use Log (see Chapter VII and Appendix)
- Gas, Toll and Parking receipts
- Maintenance and Repair records
- Purchase/Lease Monthly Payments
- Interest, Taxes, Fees and Insurance paid

Note: Attach evidence of payment (such as cancelled check) to each invoice.

LEASE/PURCHASE of BUSINESS ASSETS

(These expenses relate to lines 13 and 20 of Schedule C)

Into this folder place documentation for lease or purchase of business assets such as:

Computers	Fax Machines	Scanners
Phone Systems	Beepers	Pagers
Furniture	Furnishings	TV/VCR
Cell Phones	Tape Duplication System	

Note: Attach evidence of payment (such as cancelled check) to each invoice/pmt.

WAGES, COMMISSIONS & EMPLOYEE BENEFITS PAID

(These expenses relate to lines 14, 19 and 26 of Schedule C)

Into this folder place documentation for:

- Wages Paid to Family-Member Employees
- Time-Sheets or Work-Logs
- Employment Contracts
- Evidence that wage-rates paid were "reasonable."
- Copies of Payroll Tax Forms and Payroll Reports
- Commissions Paid to others, if applicable
- Costs of Medical Reimbursement benefit

Note: Attach evidence of payment (such as cancelled check) to each invoice.

LEGAL & PROFESSIONAL FEES & COSTS

(These expenses relate to line 17 of Schedule C)

Into this folder place documentation for:

- Legal Fees
- Tax Preparation and Tax Advice
- Outside Bookkeeping or Payroll Services
- Purchase of This System

Note: Attach evidence of payment (such as cancelled check) to each invoice.

BUSINESS USE OF YOUR HOME

(These expenses relate to line 30 of Schedule C)

Into this folder place documentation for:

- Calculations to Determine Business Use Percentage
- Mortgage Interest or Rent payments
- Utility bills
- Real Estate Taxes
- Receipts for lawn care, house cleaning service, etc.
- Home Repairs, Maintenance and Improvements
- Alarm System

Note: It is easier to justify all of the above if you have a floor-plan of your home, indicating the Business Use of each room, and/or photos that show the Business Use of the rooms you are including in your Business Use Percentage (BUP) calculations. Attach evidence of payment (such as cancelled check) to each invoice.

OFFICE SUPPLIES

(These expenses relate to line 22 of Schedule C)

Into this folder place documentation for:

Stationery	Business Cards	Address Labels
Fax Paper	Calendars	File Folders
Desk Supplies	Mail Folders	Cleaning Supply's

Just About Everything from Pencils to Toner Cartridges!

Note: Even business equipment and other "assets" can be considered "supplies" if their purchase cost is only a few hundred dollars or less. Attach evidence of payment (such as cancelled check) to each invoice.

BUSINESS TRAVEL & ENTERTAINMENT

(These expenses relate to line 24 of Schedule C)

Into this folder place documentation for:

Everything covered in Chapters VIII and IX, including…

Air fare receipt - with date and time of departure & arrival written on it
(Remember, spending 4 hours in transit counts as a Business Day)
Receipts for all expenditures in excess of $75.00
Notes on all individual expenditures less than $75.00
Record number of hours of business activity and personal time each day
Hotel receipts (with any Personal expenses annotated and deducted)
Entertainment receipts, with required annotations.

<u>Note</u>: Attach evidence of payment (such as cancelled check) to each invoice.

MISC. OTHER BUSINESS EXPENSES

Into this folder place documentation for:

- Bank statements
- Business license, fees or taxes
- Repairs to business equipment
- Interest paid on business loans
- Interest and fees paid on *business* credit cards
- Banking fees
- Postage and delivery fees
- Homeowners or renters insurance
- Dues and subscriptions
- Costs of Internet Access, Cell Phones & Pagers
- Phone Bills
- *And anything else that might possibly be deductible.*

<u>Note</u>: Attach evidence of payment (such as cancelled check) to each invoice.

A Very Important Note About Record-Keeping

Most people do know that they need to keep copies of invoices or bills to document their tax-deductible expenses.

But many people do not know that they also are required by the IRS to be able to prove they paid those invoices/bills. Proof of payment IS a requirement for making those expenses deductible. Here's why and how…

The logic is not difficult to understand: A taxpayer could order a $5,000 piece of business equipment, receive an invoice for it, but then return the item for a full refund. If the IRS only required the invoice for documentation, the taxpayer could claim a $5,000 deduction for a piece of equipment he/she never kept or paid for.

Therefore, the IRS requires the taxpayer to provide proof of the **cost of the item** (invoice) **and** proof that it was **paid**.

That proof could be in the form of a 'PAID" stamp on the invoice, if the item was paid for in cash. Or it could be documented with a cancelled business check. (If your bank provides only copies of your checks, be sure you have a copy of both sides of the check!)

If you pay by charge card for a tax-deductible item, the IRS considers the item to have been paid for when the charge card company records the charge (i.e., December charges are included in the tax-year ending in December, even though you will not receive the statement until January).

Therefore, your proof-of-payment documentation should include a copy of your charge card receipt (the "flimsy") or a copy of your monthly invoice, which lists the charge on it.

Keeping a daily appointment calendar and recording expenses on it is accepted by the IRS as proof of expenditures below a certain number ($75 for travel related expenses, for example).

This Ultimate Tax Reduction System provides you with a wealth of knowledge regarding all the tax benefits associated with owning your own home-based business.

Make sure you read page 195 to see the home-based business we recommend if you do not already have a home-based business.

Chapter XI

Easy Steps to Audit-Proofing Your Taxes

When most taxpayers hear the word “audit” they get the same feeling as when they look into their rear-view mirror and see flashing blue lights behind them.

So first, let’s put “audit” into perspective.

An audit is nothing more than the IRS’s attempt to see if you reported all of your income accurately, and if you qualified for all of the deductions you claimed.

If you are driving 65 mph in a 65 mph zone, you have nothing to fear if a highway patrolman uses radar to check your speed, right? Well, likewise, if all of the deductions you are claiming on your Tax Returns are legal and adequately documented, there’s no reason to fear an audit.

Maintaining the documentation the IRS looks for does not have to be time consuming, does not require an accountant, and is easy.

These are the *5 Most Important Steps* every taxpayer should take to Audit-Proof their taxes…

1. When documenting deductions, the IRS requires that you produce evidence that you incurred the expense, which is usually going to be a copy of your invoice. **But** they **also require proof that you paid the invoice, so keep your cancelled checks attached to your invoices** for all expenses you are deducting on your Tax Return. (By the way, when a bill is charged to a credit card, it is deemed to have been paid when the card charge is incurred, so keep credit card statements also.)

2. Many people keep a separate checking account for their business income and expenses, which is highly recommended. But you must know that **the IRS will consider all deposits into that account as representing "earned income."** If they add up your deposits and come up with a different number from what you reported, it may look like you under-reported your income. (That's not a good thing!) Perhaps some of your deposits were personal funds you were <u>loaning</u> your company so that you could buy promotional materials. Solution: **Mark clearly in your checkbook register the source of every deposit into your business account.**

3. If you hire your children and/or spouse so that the expenses are deductible, **pay them by check, and require them to document what they did** to earn each check. For example, they could turn in monthly or weekly calendar pages or timesheets on which they've recorded the work they did, what days they did it on, and the number of hours worked. (Ex.: 18th, updated business prospect list, 2 hours). You may also be required to **show that the amount you are paying your family members is "reasonable."** So get an outside company to give you a written estimate on the work to be done, and then pay your family member approximately that amount. Or determine what a reasonable person might pay an employee or outside contractor for a similar service, and then use a comparable wage.

4. If your Schedule C at the end of the year shows your home-based business with a net loss for the year, an auditor may require you to prove that you intended to make a profit. Profit-intent is required to prove that you are in a legitimate business, and the IRS will accept a Business Plan as an important part of your proof. **So have a Business Plan**! (We have provided you a draft in Appendix F of this system.)

5. **Never attend a tax-audit in person** (see next section).
Get a tax lawyer or accountant who is an Enrolled Agent to attend in your place. EA's are authorized to represent clients in tax audits. If you are present, the auditor may ask trick questions, hoping you'll slip up somewhere. But if you're not there, they can't ask you.

Your chances of an Audit are slim, but if you follow these five steps, you'll have nothing to fear.

NEVER Appear In-Person for a Tax Audit!

You **never** want to show up **in person** for a tax audit! **Never, never, NEVER!** Always have an Enrolled Agent, CPA or other IRS-approved representative appear in your place.

An Enrolled Agent is someone authorized by the IRS to represent clients at IRS Audits and Audit-Appeals. Many Enrolled Agents are former IRS agents themselves, so they really know what an audit is all about!

If you are **not** personally present, you cannot answer questions about "apparent discrepancies" – questions that may cause you to answer inaccurately, simply due to vague recollections of something that occurred three years prior.

For example, the auditor says, "Your appointment calendar says you were in Denver on this date, but you have claimed an entertainment expense for Chicago on that same date."

If **you** are present, you'll be expected to have a good answer. But if your **agent** is present **instead** of you, he or she simply says, "Obviously the Denver trip got cancelled or postponed."

Please make sure you use the 9 file folders! The "old trick" of showing up at an audit with a basketful of receipts is no longer tolerated by the IRS.

"Nothing to Fear But Fear Itself"

If you keep all receipts, and keep them grouped by category, and <u>use</u> those receipts to have your taxes prepared, **you have nothing to fear, even if you receive an audit notice**.

If all the deductions you claimed are legal, and if you've kept necessary documentation (both of which are described in this system), an audit of your Tax Return will simply be an "unavoidable inconvenience."

But it will <u>not</u> be something to be feared!

An Audit Can Actually be a Good Thing - *Really!*

On average, your chances of being randomly audited is about 0.5%. That's ½ of 1 percent. One chance out of every 200 taxpayers. In fact, in 1999 only 1 out of every 318 tax returns were audited.

But if you <u>are</u> audited and you've followed the rules and have the documentation, there's nothing for the IRS to "find." So, here's the good news about having been audited…

The law says that if, during the conduct of a routine audit, the IRS does not find any material adjustment (*which they obviously shouldn't in your case*) then they are not allowed to perform another routine audit of your returns again for at least two more years, even if your name comes up again in the computer-generated random list of returns to be audited.

So, audits are rare, but they do happen. But "if you're driving within the speed limit, there's no reason to fear a radar gun."

Chapter XII

How You Could Add Hundreds of Dollars Every Month To Your Take-Home Pay!

Do you remember your first day on the job, when you had to fill out all sorts of paperwork? One of those papers was a W-4 Tax Withholding Form, on which you determined the "number of **allowances** you are claiming."

That number, coupled with your answer to whether your filing status is Single or Married, told your employer what percentage of your money he or she is required to withhold from your wages for various Federal and State taxes.

Three Common Misunderstandings About W-4 Forms

The FIRST Misconception most people have about W-4s:

The term "Allowances" has nothing to do with the number of people in your household. **Allowances do not mean Dependents**. It is simply a term representing the percentage of your wages to be withheld.

For example, if you claim three Allowances, a certain percentage of your wages will be withheld for taxes. Now if you file a revised W-4 with your employer, doubling the number of Allowances you are claiming to six, much less money will be withheld from each paycheck.

The SECOND Misconception most people have about W-4s:

Most people do not understand the purpose of withholding taxes. If you've ever owned a home, you probably understand the term "escrow." It means that, with each month's house payment, the mortgage company is also collecting 1/12th of your annual Property Taxes. That way, when the tax bill comes in, your mortgage company has the money to pay it for you. Assuming your property tax amount does not change mid-year, when the bill comes in the mortgage company will have "in your escrow account," exactly the amount needed to pay it off.

Withholding taxes work exactly the same way. The number of Allowances you put on your W-4, tells your employer how much you expect to owe in Income Taxes during the course of the year. The employer, then deducts a *pro rata* amount from each paycheck.

To use round numbers, let's say you expect to pay $12,000 in Income Taxes this year. If you get paid once a month, your employer will withhold $1,000 from each of your 12 monthly paychecks. If you get paid twice a month, your employer will withhold $500 out of each of your 24 paychecks. If you get paid weekly, your employer will withhold $1/52^{nd}$ of $12,000 from each paycheck.

In each case, the amount withheld during the course of the entire year, should come out to exactly what you owe in taxes. If your number of Allowances was computed accurately, at the end of the year you will owe no additional taxes, and you will get no tax refund. That's the way is should be.

If your withholding wasn't high enough, you'll end up owing the Government additional taxes at the end of the year. If you've had too much withheld, you'll end up getting a refund at the end of the year.

Contrary to popular opinion, a Refund is ***not*** a good thing! Getting a refund at the end of the year, means that you have given Uncle Sam an interest-free loan for a full year. If, for example, you get back $2,400 in Tax Refunds, most people would be excited. However, what that really means is that $200 cash that you could have put into your own pocket every single month, **you gave, instead, to the government as an interest-free loan.**

Pardon my bluntness, but that's not very smart. If that's the only way you can save money, then give the money to me. I will invest it and earn interest on it, and then give the principal back to you next April 15th - but I get to keep the interest. That's the same thing you are letting Uncle Sam do!

The THIRD Misconception most people have about W-4s:

Many people believe that, if they claim a high number of Allowances on their W-4, they're more likely to get audited. I've been assured by former top IRS executives that that just is not true, as long as the number of allowances is appropriate. In other words, if you were claiming 4 Allowances, and then changed your W-4 to claim 12 Allowances, and then, at the end of the year, you ended up owing $3,000 in additional Income Taxes… well, let's just say that's not a good thing.

The trick is to make the amount of money withheld from your paycheck come out to almost exactly what your annual tax obligation will be, and in a few minutes we will show you how to do that.

Now that Your Deductions are Going UP
(Thanks to your home-based business)
Your Withholding Taxes Can Go DOWN

Nationwide, the average amount of withholding is more than 30%, meaning about one-third of the money you earn gets gobbled up for various taxes, and then you get what's left, in a check called your "take-home pay."

This is VERY Important! You are about to learn how to increase your take-home pay by as much as 10 percent or more, easily, legally and quickly, **usually starting with your very next paycheck!**

As we have said, in theory, the amount of money withheld during the course of the year should match the amount you owe at the end of the year. If this happens, you owe no additional taxes and you get no refund at the end of the year.

If too little was withheld, you end up having to send in a check with your Tax Return. If too much was withheld, you file for a Refund, which we've explained is not a good thing!

With a **qualifying home-business and using the deductions described in this system**, you are now going to begin paying a **lot less in taxes** than you did before you learned about all these home-business deductions. There is a formula for forecasting how much your taxes will go down, based on how much of your home is used in your business, how many business miles you will put on your car, the number of business trips (formerly called *vacations*) you will anticipate taking, etc.

Anyone can submit a revised W-4 at any time. Once you know how much you will be saving on taxes, you simply go to your payroll office and fill out a new W-4, claiming a higher number of allowances.

Your new W-4 will result in your employer withholding far less from your wages, thus, your take-home pay goes up. That increase should show up in your very next paycheck.

The home-business tax deductions explained in this system could allow many people to claim 4 to 6 allowances, and sometimes the number can be as high as 8 or 9; or even higher in some cases.

Remember: Do not confuse “allowances” with “deductions” or “dependents.” Allowances have nothing to do with the number of people in your household.

The result? Roughly speaking, for every $1,000 in your current paycheck, you will have an **additional $100** (could be more, could be less) in all <u>future</u> paychecks, after you’ve filed a new W-4 with your employer.

Many people find that their take-home pay increases by up to $200 - $600 per month, or more!   That's like giving yourself an immediate "pay-raise."

How big will YOUR increase in take-home pay be?

Let's take a look…

If you had a home-based business at any time in the past 3 years, and if anything in this book is new to you, you may have missed out on some of the legal deductions you could have taken, had you known about the deductions described in this book.

The law allows you up to three years to file Amended Returns to claim the deductions you may have missed.

See page 195 for instructions on how you can get this done.

W-4 Allowance Worksheet for a Taxpayer with a Home-Based Business

Every wage-earning employee is required, by law, to have a Form W-4 on file with their employer's payroll office. The IRS Code, §3402, authorizes employees to adjust the number of Allowances claimed on their W-4 any time a change in circumstances suggests that their income tax liability will significantly alter. Your employer is required to allow you to change your W-4 at any time, and is required to immediately adjust your withholding in accordance with the number of Allowances you claim on your Revised W-4. That normally means you will see the change in your very next paycheck, unless you submitted a revised W-4 just immediately before a payday, in which case the change may be delayed until the following payday. **Computing the *approximate* number of allowances to claim on your W-4, is a 2 Part process.**

PART 1:

1. Look at the **Form W-4** supplied in **Appendix E**. Following the instructions contained in the Form W-4, page 2, top section, calculate the correct number for Line 10, and then write that number here: ______________

PART 2:

1. a. How many business miles will you put on your car(s) during a 12 month period?_______ miles
   b. Multiply this number of miles times 0.365, and record the answer here: $ ______________

2. a. Will you employ your spouse in your business? YES or NO
   b. If YES, how much does your family spend annually on non-reimbursed medical costs? $ ______________

3. a. Will you employ your child(ren) in your business? YES or NO
   b. If YES, multiply [number of children to be hired] X [amount each will be paid per year]: $ ______________

4. a. Will you take any Business Trips this year? YES or NO
   b. If YES, Approximate total travel costs (including your employees): $ ______________

5. Out-of-Pocket expenses for advertising, supplies, monthly fees/dues, 50% of meals/ent., etc. $ ______________

6. Total deductions for equipment, furniture and fixtures (see Chapter V) $ ______________

7. Total all items 1 through 6, and write the result here: $ ______________

8. Your projected home-business revenue this year, based on total revenue earned to date: $ ______________

9. Subtract the Amount appearing on Line 8 from that appearing on Line 7, and record the result: $ ______________

10. a. If your total annual income **from all sources** is **under** $53,000 (Married) or under $31,000 (Single), Divide the Amount on Line 9 $_______ by $4,400 **=** ___________ **Allowances**

Or…

   b. If your total annual income **from all sources** is **over** $53,000 (Married) or over $31,000 (Single), Divide the Amount on Line 9 $_______ by $3,000 = ___________ **Allowances**

Now,

Add the number you arrived at in Part 1: ___________ Allowances
And the number you arrived at in Part 2 (10a or 10b) + ___________ Allowances

---

Place Your Total Allowances Here = ___________

NOTES:

* **If your total exceeds 10, consider limiting claim to 10, and claiming the balance of your refund when you file your tax return; claiming 11+ allowances on your W-4 requires your employer to obtain IRS approval.**
- **The above calculations are estimates only and may not be accurate for all taxpayers in all situations if you have other income or deductions.**
- **Taxpayers should CONSULT A QUALIFIED TAX PROFESSIONAL SPECIALIZING IN HOME-BUSINESS TAX-LAW for assistance with W-4 allowance calculations. Your calculations should be reviewed regularly to insure that you will not owe taxes when you file your tax return.**

Take-Home Pay Increase Estimator

Directions:

1. **Locate your approximate *monthly* wages in the left-hand column of the table below that applies to you.**

2. **What number did you come up with in Step 10 on the previous page? Look for that number across the top of the appropriate table below.**

3. **Where those two numbers intersect, you'll see the *approximate* amount of your take-home pay increase.**

MARRIED PERSONS FILING JOINT RETURNS

Additional Take-home Pay Due to Home-Business

Gross Wages (Monthly)	Additional Allowances Due to Home-Business 4	6	8	9
$1,000	**$ 72**	**$ 72**	**$ 72**	**$ 72**
$1,500	**$137**	**$144**	**$144**	**$144**
$2,000	**$137**	**$206**	**$222**	**$222**
$2,500	**$137**	**$206**	**$275**	**$294**
$3,000	**$137**	**$206**	**$275**	**$309**
$3,500	**$137**	**$206**	**$275**	**$309**
$4,000	**$145**	**$413**	**$283**	**$317**
$4,500	**$210**	**$279**	**$348**	**$382**
$5,000	**$256**	**$344**	**$413**	**$447**

SINGLE PERSONS and MARRIEDS FILING SEPARATELY

Additional Take-home Pay Due to Home-Business

Gross Wages (Monthly)	Additional Allowances Due to Home-Business 4	6	8	9
$1,000	**$120**	**$120**	**$120**	**$120**
$1,500	**$138**	**$192**	**$192**	**$192**
$2,000	**$138**	**$206**	**$270**	**$270**
$2,500	**$167**	**$235**	**$304**	**$338**
$3,000	**$234**	**$302**	**$371**	**$406**
$3,500	**$256**	**$364**	**$433**	**$468**
$4,000	**$256**	**$384**	**$501**	**$536**
$4,500	**$256**	**$384**	**$512**	**$578**
$5,000	**$256**	**$384**	**$512**	**$582**

NOTE: The above calculations are estimates only and may not be accurate for all taxpayers in all situations. Taxpayers should consult a tax professional for assistance with W-4 allowance calculations.

Chapter XIII

Putting It All Together

What have we learned, and what does it mean - **to YOU?**

First, we have learned that America has two tax systems, and either you have been in the wrong one or you have been in the right one, but you still have not been getting all the tax-reduction benefits you qualified for.

Either way, you will no longer lose out on legitimate tax breaks just because no one ever told you about them.

Before you read this system, if I had asked you, "Who in America gets the most tax breaks?" what would you have replied? Most people would have said, "The wealthy people who can afford good tax lawyers to find them all the loopholes."

But that really isn't true, is it? It is people who establish and run a business form their home, and understand the tax laws that were enacted by Congress to encourage them to do just that.

The Home-Business Tax Breaks Passed by Congress Were Not Accidental

They didn't unintentionally create laws that ended up decreasing Federal tax revenues. They did it for a "selfish" reason.

Look, why do banks often offer small-businesses customers exceptionally low rates on loans for business expansion? It's because, when the business does expand, the customer

- Will have lots more money to put in their bank,
- Will become a loyal long-term customer, grateful for the help the bank provided in their early-growth stages,
- Will go back to the same bank for even larger (and higher interest) loans as they continue expanding their business even further, and
- Will likely generate dozens or hundreds of new banking customers from the business's employee base.

So, was the bank altruistic in providing a low-interest, collateral-free business expansion loan? Hardly! They simply make a shrewd business decision. They helped the small customer in the short-run, so that the bank would have a large, financially strong customer in the long-run.

That is exactly why the United States Congress passed an array of tax incentives to encourage taxpayers to establish home-businesses.

This is why is the government wants to help “subsidize” your small business by giving you a large number of substantial tax breaks. They’re hoping your little business will thrive and become a **BIG business** – because then you will be paying far more in taxes, but at that point, you won’t mind, because you’ll also be keeping far more!

It’s just like investors buying stock in tiny start-up companies that have little or no net worth. Why do they do it? Because they’re hoping their $1 per share investment will enable the company to grow big and profitable, increasing the worth of their investment to $20 or $200 or $2,000 per share.

Believe me the government **wants** your tax money! They’re simply risking a short-term decrease in tax revenue from you, in hopes of a dramatic increase in tax revenues from you when your business is financially successful.

How Much Can YOU Save in Taxes?

Almost everyone will save at least 50-times the price of this system, and many people will actually cut their taxes by as much as $5,000 or more!

Let's add up all the new tax-deductions you could qualify for – the money you will be able to shift from Uncle Sam's pocket, back into your own pocket, where it belongs.

- Flip back to Chapter IV. How many dollars worth of personal expenses did you calculate you'll be able to convert into tax-deductible business expenses? The number is probably at least $10,000, and may be as high as $40,000 for some people. Remember, there are tax-deduction limits in the category called Indirect Expenses. See last page of Chapter IV. **Record this number on line "A" on the following worksheet.**

- Will you hire your children as employees of your home-based business? If so, how many kids, and how much will you pay them? Remember, you can pay each child up to $4,700 in 2002. This is tax-deductible to you and tax-free to them. **Put this number on line "B" on the following worksheet.**

- Will you be employing a spouse in your business, and giving him/her self-insured medical/dental benefits as discussed in Chapter VI? This strategy lets you tax-deduct all the out-of-pocket medical related expenses you now pay in after-tax dollars. Expenses like annual deductibles, co-pays, non-covered medications, medical devices and procedures, etc. This should be worth at least a few hundred dollars, and very well could be worth thousands. **Put that number, less any payroll tax costs, on <u>line "C"</u> on the following worksheet.**

- Look back at Chapter VII again. How much will you be able to write-off for business use of your vehicle(s)? At a bare minimum, it will be the number of business miles times 36.5¢ /mile (in 2002). For most people, this might come out somewhere between $3,500 - $5,000. **Put it on <u>line "D."</u>**

- How much will you spend on business travel (including vacations that you will convert into business travel)? See Chapter XIII. Record that number on **<u>line "E"</u> on the following worksheet.**

- Will you entertain business associates in or outside your home? Will you qualify to write-off club dues or season tickets, etc? **Half of that number goes on line "F."**

- Finally, add up all other deductions that didn't fall into one of these six categories, **and record the total on line "G**."

Let's add them up…

YOUR Estimated Reduction in Taxes Due to Operating a Home-Business

A. Home-related Business expenses: $ __________
(See Chapter IV for limits on deducting Indirect Expenses.)

B. Wages for hiring children: $ __________

C. Family's non-reimbursed medical costs: $ __________

D. Vehicle Business Miles x 36.5¢ /mile: $ __________

E. Business Travel: $ __________

F. 50% of Business Entertainment: $ __________

G. Other Deductions: (business equipment, loss on sale of home/car, depreciation, etc.) $ __________

Estimated Total Deductions $ ________

Are you shocked and in disbelief at that number? Most people are totally blown-away!

This gives you an idea of how much of your hard-earned money you have been **over-paying on your taxes!**

If you have ANY questions about anything you have read or done at this point, make sure you speak with a qualified home-based business tax professional.

If you cannot find a qualified professional to speak with please see page 195 for information on locating someone.

Chapter XIV

You Could Get Thousands of Dollars in REFUNDS on Tax Returns You Filed Up to 3 Years Ago!

This Chapter Could Help You Get an IMMEDIATE Tax Refund Worth Up To Thousands of Dollars.

Did you have a home-based business prior to this year, and miss-out on many of the legal tax deductions revealed in this system?

Does it make you angry to think of all the extra money that you gave Uncle Sam, just because you didn't know the things you've learned from this system?

> **Here is some good news!** You have up to three years to file an Amended Tax Return any time you discover errors or oversights on a previous year's Tax Return!

You have until April 15, 2003 to file an Amended Return for tax-year 1999, for example, or April 15, 2004 to Amend your 2000 Return, since those dates are three years after the deadline for filing those Tax Returns. And you can file Amended Returns for 2001 as well. Your deadlines may be even later if you filed an extension or paid your tax late.

Have you already filed your current year Tax Returns, and now you're kicking yourself? File an Amended Return immediately! You can file an Amended Return even before you receive any claimed refund, and even if you've just paid "Taxes Due" on your current Returns.

If you have had a qualifying home-business in the past three years, you should immediately file Amended Returns for those years in which you have deductible expenses that you or your accountant failed to claim.

You could regain thousands and thousands of dollars you've over-paid in taxes, **AND the IRS will even pay you interest on the amount you overpaid!** If you overpaid by $3,000 in each of those years, for example, the IRS will send you a refund check for $9,000 ***plus interest***.

Filing an Amended Return could put thousands of "lost" dollars into your pocket. Yes, Christmas can come any time of the year.

May you have many happy 'Returns!'

APPENDICES

Appendix A

IRS Form SS-4
Application for Employer Identification Number (EIN)

In order to employ your spouse or children in your home based business, you'll need an Employer Identification Number (EIN). You can get one quickly and at no cost by filling out and submitting a Form SS-4 with the IRS.

Although you will not be required to withhold or pay any taxes on family-member employees under 18, you will need to file Employer's Quarterly Tax Returns. This is "just paperwork," but it is easy paperwork and, most importantly, it is the paperwork that qualifies you for all the tax breaks discussed in Chapter VI of this system.

Once you have an Employer Identification Number, the IRS will automatically send you a form each calendar-quarter to file taxes (if required), and a toll-free 800-number to call for answers to any questions about filing the form.

More information is available directly from the IRS's web site (**www.IRS.gov**), which is very user-friendly.

Instructions for Form SS-4

Department of the Treasury
Internal Revenue Service

(Rev. December 2001)

Application for Employer Identification Number

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions

Use these instructions to complete **Form SS-4,** Application for Employer Identification Number. Also see **Do I Need an EIN?** on page 2 of Form SS-4.

Purpose of Form

Use Form SS-4 to apply for an employer identification number (EIN). An EIN is a nine-digit number (for example, 12-3456789) assigned to sole proprietors, corporations, partnerships, estates, trusts, and other entities for tax filing and reporting purposes. The information you provide on this form will establish your business tax account.

CAUTION *An EIN is for use in connection with your business activities only. Do **not** use your EIN in place of your social security number (SSN).*

File only one Form SS-4. Generally, a sole proprietor should file only one Form SS-4 and needs only one EIN, regardless of the number of businesses operated as a sole proprietorship or trade names under which a business operates. However, if the proprietorship incorporates or enters into a partnership, a new EIN is required. Also, each corporation in an affiliated group must have its own EIN.

EIN applied for, but not received. If you do not have an EIN by the time a **return** is due, write ''Applied For'' and the date you applied in the space shown for the number. **Do not** show your social security number (SSN) as an EIN on returns.

If you do not have an EIN by the time a **tax deposit** is due, send your payment to the Internal Revenue Service Center for your filing area as shown in the instructions for the form that you are are filing. Make your check or money order payable to the **''United States Treasury''** and show your name (as shown on Form SS-4), address, type of tax, period covered, and date you applied for an EIN.

Related Forms and Publications

The following **forms** and **instructions** may be useful to filers of Form SS-4:

- **Form 990-T,** Exempt Organization Business Income Tax Return
- **Instructions for Form 990-T**
- **Schedule C (Form 1040),** Profit or Loss From Business
- **Schedule F (Form 1040),** Profit or Loss From Farming
- **Instructions for Form 1041 and Schedules A, B, D, G, I, J, and K-1,** U.S. Income Tax Return for Estates and Trusts
- **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons
- **Instructions for Form 1065,** U.S. Return of Partnership Income
- **Instructions for Form 1066,** U.S. Real Estate Mortgage Investment Conduit (REMIC) Income Tax Return
- **Instructions for Forms 1120 and 1120-A**
- **Form 2553,** Election by a Small Business Corporation
- **Form 2848,** Power of Attorney and Declaration of Representative
- **Form 8821,** Tax Information Authorization
- **Form 8832,** Entity Classification Election

For more **information** about filing Form SS-4 and related issues, see:

- **Circular A,** Agricultural Employer's Tax Guide (Pub. 51)
- **Circular E,** Employer's Tax Guide (Pub. 15)
- **Pub. 538,** Accounting Periods and Methods
- **Pub. 542,** Corporations
- **Pub. 557,** Exempt Status for Your Organization
- **Pub. 583,** Starting a Business and Keeping Records
- **Pub. 966,** EFTPS: Now a Full Range of Electronic Choices to Pay All Your Federal Taxes
- **Pub. 1635,** Understanding Your EIN
- **Package 1023,** Application for Recognition of Exemption
- **Package 1024,** Application for Recognition of Exemption Under Section 501(a)

How To Get Forms and Publications

Phone. You can order forms, instructions, and publications by phone 24 hours a day, 7 days a week. Just call 1-800-TAX-FORM (1-800-829-3676). You should receive your order or notification of its status within 10 workdays.

Personal computer. With your personal computer and modem, you can get the forms and information you need using the IRS Web Site at **www.irs.gov** or File Transfer Protocol at **ftp.irs.gov.**

CD-ROM. For small businesses, return preparers, or others who may frequently need tax forms or publications, a CD-ROM containing over 2,000 tax products (including many prior year forms) can be purchased from the National Technical Information Service (NTIS).

To order **Pub. 1796,** Federal Tax Products on CD-ROM, call **1-877-CDFORMS** (1-877-233-6767) toll free or connect to **www.irs.gov/cdorders.**

Tax Help for Your Business

IRS-sponsored Small Business Workshops provide information about your Federal and state tax obligations. For information about workshops in your area, call 1-800-829-1040 and ask for your Taxpayer Education Coordinator.

How To Apply

You can apply for an EIN by telephone, fax, or mail depending on how soon you need to use the EIN.

Application by Tele-TIN. Under the Tele-TIN program, you can receive your EIN by telephone and use it immediately to file a return or make a payment. To receive an EIN by telephone, IRS suggests that you complete Form SS-4 so that you will have all relevant information available. Then call the Tele-TIN number at 1-866-816-2065. (International applicants must call 215-516-6999.) Tele-TIN hours of operation are 7:30 a.m. to 5:30 p.m. The person making the call must be authorized to sign the form or be an authorized designee. See **Signature** and **Third Party Designee** on page 6. Also see the **TIP** below.

An IRS representative will use the information from the Form SS-4 to establish your account and assign you an EIN. Write the number you are given on the upper right corner of the form and sign and date it. Keep this copy for your records.

If requested by an IRS representative, mail or fax (facsimile) the signed Form SS-4 (including any Third Party Designee authorization) **within 24 hours** to the Tele-TIN Unit at the service center address provided by the IRS representative.

TIP *Taxpayer representatives can use Tele-TIN to apply for an EIN on behalf of their client and request that the EIN be faxed to their **client** on the same day. (**Note:** By utilizing this procedure, you are authorizing the IRS to fax the EIN without a cover sheet.)*

Application by Fax-TIN. Under the Fax-TIN program, you can receive your EIN by fax within 4 business days. Complete and fax Form SS-4 to the IRS using the Fax-TIN number listed below for your state. A long-distance charge to callers outside of the local calling area will apply. Fax-TIN numbers can only be used to apply for an EIN. **The numbers may change without notice.** Fax-TIN is available 24 hours a day, 7 days a week.

Be sure to provide your fax number so that IRS can fax the EIN back to you. (**Note:** By utilizing this procedure, you are authorizing the IRS to fax the EIN without a cover sheet.)

Do not call Tele-TIN for the same entity because duplicate EINs may be issued. See **Third Party Designee** on page 6.

Application by mail. Complete Form SS-4 at least 4 to 5 weeks before you will need an EIN. Sign and date the application and mail it to the service center address for your state. You will receive your EIN in the mail in approximately 4 weeks. See also **Third Party Designee** on page 6.

Call 1-800-829-1040 to verify a number or to ask about the status of an application by mail.

If your principal business, office or agency, or legal residence in the case of an individual, is located in:	**Call the Tele-TIN or Fax-TIN number shown or file with the "Internal Revenue Service Center" at:**
Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia	Attn: EIN Operation Holtsville, NY 00501 Tele-TIN 866-816-2065 Fax-TIN 631-447-8960
Illinois, Indiana, Kentucky, Michigan	Attn: EIN Operation Cincinnati, OH 45999 Tele-TIN 866-816-2065 Fax-TIN 859-669-5760
Alabama, Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, Puerto Rico, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, Wyoming	Attn: EIN Operation Philadelphia, PA 19255 Tele-TIN 866-816-2065 Fax-TIN 215-516-3990
If you have no legal residence, principal place of business, or principal office or agency in any state:	Attn: EIN Operation Philadelphia, PA 19255 Tele-TIN 215-516-6999 Fax-TIN 215-516-3990

Specific Instructions

Print or type all entries on Form SS-4. Follow the instructions for each line to expedite processing and to avoid unnecessary IRS requests for additional information. Enter "N/A" (nonapplicable) on the lines that do not apply.

Line 1—Legal name of entity (or individual) for whom the EIN is being requested. Enter the legal name of the entity (or individual) applying for the EIN exactly as it appears on the social security card, charter, or other applicable legal document.

Individuals. Enter your first name, middle initial, and last name. If you are a sole proprietor, enter your individual name, not your business name. Enter your business name on line 2. Do not use abbreviations or nicknames on line 1.

Trusts. Enter the name of the trust.

Estate of a decedent. Enter the name of the estate.

Partnerships. Enter the legal name of the partnership as it appears in the partnership agreement.

Corporations. Enter the corporate name as it appears in the corporation charter or other legal document creating it.

Plan administrators. Enter the name of the plan administrator. A plan administrator who already has an EIN should use that number.

Line 2—Trade name of business. Enter the trade name of the business if different from the legal name. The trade name is the ''doing business as '' (DBA) name.

CAUTION *Use the full legal name shown on line 1 on all tax returns filed for the entity. (However, if you enter a trade name on line 2 and choose to use the trade name instead of the legal name, enter the trade name on* ***all returns*** *you file.) To prevent processing delays and errors,* ***always*** *use the legal name only (or the trade name only) on* ***all*** *tax returns.*

Line 3—Executor, trustee, ''care of'' name. Trusts enter the name of the trustee. Estates enter the name of the executor, administrator, or other fiduciary. If the entity applying has a designated person to receive tax information, enter that person's name as the ''care of'' person. Enter the individual's first name, middle initial, and last name.

Lines 4a-b—Mailing address. Enter the mailing address for the entity's correspondence. If line 3 is completed, enter the address for the executor, trustee or "care of" person. Generally, this address will be used on all tax returns.

TIP *File* ***Form 8822****, Change of Address, to report any subsequent changes to the entity's mailing address.*

Lines 5a-b—Street address. Provide the entity's physical address **only** if different from its mailing address shown in lines 4a-b. **Do not** enter a P.O. box number here.

Line 6—County and state where principal business is located. Enter the entity's primary **physical** location.

Lines 7a-b—Name of principal officer, general partner, grantor, owner, or trustor. Enter the first name, middle initial, last name, and SSN of **(a)** the principal officer if the business is a corporation, **(b)** a general partner if a partnership, **(c)** the owner of an entity that is disregarded as separate from its owner (disregarded entities owned by a corporation enter the corporation's name and EIN), or **(d)** a grantor, owner, or trustor if a trust.

If the person in question is an **alien individual** with a previously assigned individual taxpayer identification number (ITIN), enter the ITIN in the space provided and submit a copy of an official identifying document. If necessary, complete **Form W-7,** Application for IRS Individual Taxpayer Identification Number, to obtain an ITIN.

You are **required** to enter an SSN, ITIN, or EIN unless the only reason you are applying for an EIN is to make an entity classification election (see Regulations section 301.7701-1 through 301.7701-3) and you are a nonresident alien with no effectively connected income from sources within the United States.

Line 8a—Type of entity. Check the box that best describes the type of entity applying for the EIN. If you are an alien individual with an ITIN previously assigned to you, enter the ITIN in place of a requested SSN.

CAUTION *This is not an election for a tax classification of an entity. See* ***''Limited liability company (LLC)''*** *on page 4.*

Other. If not specifically mentioned, check the ''Other'' box, enter the type of entity and the type of return, if any, that will be filed (for example, "Common Trust Fund, Form 1065" or "Created a Pension Plan"). Do not enter "N/A." If you are an alien individual applying for an EIN, see the **Lines 7a-b** instructions above.

- **Household employer.** If you are an individual, check the ''Other'' box and enter ''Household Employer'' and your SSN. If you are a state or local agency serving as a tax reporting agent for public assistance recipients who become household employers, check the ''Other'' box and enter ''Household Employer Agent.'' If you are a trust that qualifies as a household employer, you do not need a separate EIN for reporting tax information relating to household employees; use the EIN of the trust.
- **QSub.** For a qualified subchapter S subsidiary (QSub) check the ''Other'' box and specify ''QSub.''
- **Withholding agent.** If you are a withholding agent required to file Form 1042, check the ''Other'' box and enter ''Withholding Agent.''

Sole proprietor. Check this box if you file Schedule C, C-EZ, or F (Form 1040) and have a qualified plan, or are required to file excise, employment, or alcohol, tobacco, or firearms returns, or are a payer of gambling winnings. Enter your SSN (or ITIN) in the space provided. If you are a nonresident alien with no effectively connected income from sources within the United States, you do not need to enter an SSN or ITIN.

Corporation. This box is for any corporation **other than a personal service corporation.** If you check this box, enter the income tax form number to be filed by the entity in the space provided.

CAUTION *If you entered* ***"1120S"*** *after the "Corporation" checkbox, the corporation* ***must*** *file Form 2553* ***no later than the 15th day of the 3rd month of the tax year the election is to take effect.*** *Until Form 2553 has been received and approved, you will be considered a Form 1120 filer. See the Instructions for Form 2553.*

Personal service corp. Check this box if the entity is a personal service corporation. An entity is a personal service corporation for a tax year only if:

- The principal activity of the entity during the testing period (prior tax year) for the tax year is the performance of personal services substantially by employee-owners, and
- The employee-owners own at least 10% of the fair market value of the outstanding stock in the entity on the last day of the testing period.

Personal services include performance of services in such fields as health, law, accounting, or consulting. For more information about personal service corporations, see the Instructions for Forms 1120 and 1120-A and Pub. 542.

Other nonprofit organization. Check this box if the nonprofit organization is other than a church or church-controlled organization and specify the type of nonprofit organization (for example, an educational organization).

CAUTION *If the organization also seeks tax-exempt status, you **must** file either Package 1023 or Package 1024. See Pub. 557 for more information.*

If the organization is covered by a group exemption letter, enter the four-digit **group exemption number (GEN).** (Do not confuse the GEN with the nine-digit EIN.) If you do not know the GEN, contact the parent organization. Get Pub. 557 for more information about group exemption numbers.

Plan administrator. If the plan administrator is an individual, enter the plan administrator's SSN in the space provided.

REMIC. Check this box if the entity has elected to be treated as a real estate mortgage investment conduit (REMIC). See the Instructions for Form 1066 for more information.

Limited liability company (LLC). An LLC is an entity organized under the laws of a state or foreign country as a limited liability company. For Federal tax purposes, an LLC may be treated as a partnership or corporation or be disregarded as an entity separate from its owner.

By **default,** a domestic LLC with only one member is **disregarded** as an entity separate from its owner and must include all of its income and expenses on the owner's tax return (e.g., **Schedule C (Form 1040)**). Also by default, a domestic LLC with two or more members is treated as a partnership. A domestic LLC may file Form 8832 to avoid either default classification and elect to be classified as an association taxable as a corporation. For more information on entity classifications (including the rules for foreign entities), see the instructions for Form 8832.

CAUTION ***Do not** file Form 8832 if the LLC accepts the default classifications above. **However, if the LLC will be electing S Corporation status, it must timely file both Form 8832 and Form 2553.***

Complete Form SS-4 for LLCs as follows:

- A single-member, domestic LLC that accepts the default classification (above) does not need an EIN and generally should not file Form SS-4. Generally, the LLC should use the name and EIN of its **owner** for all Federal tax purposes. However, the reporting and payment of employment taxes for employees of the LLC may be made using the name and EIN or **either** the owner or the LLC as explained in Notice 99-6, 1999-1 C.B. 321. You can find Notice 99-6 on page 12 of Internal Revenue Bulletin 1999-3 at **www.irs.gov.** (**Note:** If the LLC-applicant indicates in box 13 that it has employees or expects to have employees, the owner (whether an individual or other entity) of a single-member domestic LLC will also be assigned its own EIN (if it does not already have one) even if the LLC will be filing the employment tax returns.)
- A single-member, domestic LLC that accepts the default classification (above) and wants an EIN for filing employment tax returns (see above) or non-Federal purposes, such as a state requirement, must check the "Other" box and write "Disregarded Entity" or, when applicable, "Disregarded Entity—Sole Proprietorship" in the space provided.
- A multi-member, domestic LLC that accepts the default classification (above) must check the "Partnership" box.
- A domestic LLC that will be filing Form 8832 to elect corporate status must check the "Corporation" box and write in "Single-Member" or "Multi-Member" immediately below the "form number" entry line.

Line 9—Reason for applying. Check only **one** box. Do not enter "N/A."

Started new business. Check this box if you are starting a new business that requires an EIN. If you check this box, enter the type of business being started. **Do not** apply if you already have an EIN and are only adding another place of business.

Hired employees. Check this box if the existing business is requesting an EIN because it has hired or is hiring employees and is therefore required to file employment tax returns. **Do not** apply if you already have an EIN and are only hiring employees. For information on employment taxes (e.g., for family members), see Circular E.

CAUTION *You may be required to make electronic deposits of all depository taxes (such as employment tax, excise tax, and corporate income tax) using the Electronic Federal Tax Payment System (EFTPS). See section 11, Depositing Taxes, of Circular E and Pub. 966.*

Created a pension plan. Check this box if you have created a pension plan and need an EIN for reporting purposes. Also, enter the type of plan in the space provided.

TIP *Check this box if you are applying for a trust EIN when a new pension plan is established. In addition, check the "Other" box in line 8a and write "Created a Pension Plan" in the space provided.*

Banking purpose. Check this box if you are requesting an EIN for banking purposes only, and enter the banking purpose (for example, a bowling league for depositing dues or an investment club for dividend and interest reporting).

Changed type of organization. Check this box if the business is changing its type of organization for example, the business was a sole proprietorship and has been incorporated or has become a partnership. If you check this box, specify in the space provided (including available space immediately below) the type of change made. For example, ''From Sole Proprietorship to Partnership.''

Purchased going business. Check this box if you purchased an existing business. **Do not** use the former owner's EIN unless you became the "owner" of a corporation by acquiring its stock.

Created a trust. Check this box if you created a trust, and enter the type of trust created. For example, indicate if the trust is a nonexempt charitable trust or a split-interest trust.

Exception. Do **not** file this form for certain grantor-type trusts. The trustee does not need an EIN for the trust if the trustee furnishes the name and TIN of the grantor/owner and the address of the trust to all payors. See the Instructions for Form 1041 for more information.

TIP ***Do not*** *check this box if you are applying for a trust EIN when a new pension plan is established. Check ''Created a pension plan.''*

Other. Check this box if you are requesting an EIN for any other reason; and enter the reason. For example, a newly-formed state government entity should enter "Newly-Formed State Government Entity" in the space provided.

Line 10—Date business started or acquired. If you are starting a new business, enter the starting date of the business. If the business you acquired is already operating, enter the date you acquired the business. Trusts should enter the date the trust was legally created. Estates should enter the date of death of the decedent whose name appears on line 1 or the date when the estate was legally funded.

Line 11—Closing month of accounting year. Enter the last month of your accounting year or tax year. An accounting or tax year is usually 12 consecutive months, either a calendar year or a fiscal year (including a period of 52 or 53 weeks). A calendar year is 12 consecutive months ending on December 31. A fiscal year is either 12 consecutive months ending on the last day of any month other than December or a 52-53 week year. For more information on accounting periods, see Pub. 538.

Individuals. Your tax year generally will be a calendar year.

Partnerships. Partnerships must adopt one of the following tax years:

- The tax year of the majority of its partners,
- The tax year common to all of its principal partners,
- The tax year that results in the least aggregate deferral of income, or
- In certain cases, some other tax year.

See the Instructions for Form 1065 for more information.

REMICs. REMICs must have a calendar year as their tax year.

Personal service corporations. A personal service corporation generally must adopt a calendar year unless:

- It can establish a business purpose for having a different tax year, or
- It elects under section 444 to have a tax year other than a calendar year.

Trusts. Generally, a trust must adopt a calendar year except for the following:

- Tax-exempt trusts,
- Charitable trusts, and
- Grantor-owned trusts.

Line 12—First date wages or annuities were paid or will be paid. If the business has or will have employees, enter the date on which the business began or will begin to pay wages. If the business does not plan to have employees, enter "N/A."

Withholding agent. Enter the date you began or will begin to pay income (including annuities) to a nonresident alien. This also applies to individuals who are required to file Form 1042 to report alimony paid to a nonresident alien.

Line 13—Highest number of employees expected in the next 12 months. Complete each box by entering the number (including zero ("-0-")) of "Agricultural," "Household," or "Other" employees expected by the applicant in the next 12 months. For a definition of agricultural labor (farmwork), see Circular A.

Lines 14 and 15. Check the **one** box in line 14 that best describes the principal activity of the applicant's business. Check the "Other" box (and specify the applicant's principal activity) if none of the listed boxes applies.

Use line 15 to describe the applicant's principal line of business in more detail. For example, if you checked the "Construction" box in line 14, enter additional detail such as "General contractor for residential buildings" in line 15.

TIP *Do not complete lines 14 and 15 if you entered zero "(-0-)" in line 13.*

Construction. Check this box if the applicant is engaged in erecting buildings or other structures, (e.g., streets, highways, bridges, tunnels). The term "Construction" also includes special trade contractors, (e.g., plumbing, HVAC, electrical, carpentry, concrete, excavation, etc. contractors).

Real estate. Check this box if the applicant is engaged in renting or leasing real estate to others; managing, selling, buying or renting real estate for others; or providing related real estate services (e.g., appraisal services).

Rental and leasing. Check this box if the applicant is engaged in providing tangible goods such as autos, computers, consumer goods, or industrial machinery and equipment to customers in return for a periodic rental or lease payment.

Manufacturing. Check this box if the applicant is engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is also considered to be manufacturing.

Transportation & warehousing. Check this box if the applicant provides transportation of passengers or cargo; warehousing or storage of goods; scenic or sight-seeing transportation; or support activities related to these modes of transportation.

Finance & insurance. Check this box if the applicant is engaged in transactions involving the creation, liquidation, or change of ownership of financial assets and/or facilitating such financial transactions;

underwriting annuities/insurance policies; facilitating such underwriting by selling insurance policies; or by providing other insurance or employee-benefit related services.

Health care and social assistance. Check this box if the applicant is engaged in providing physical, medical, or psychiatric care using licensed health care professionals or providing social assistance activities such as youth centers, adoption agencies, individual/family services, temporary shelters, etc.

Accommodation & food services. Check this box if the applicant is engaged in providing customers with lodging, meal preparation, snacks, or beverages for immediate consumption.

Wholesale–agent/broker. Check this box if the applicant is engaged in arranging for the purchase or sale of goods owned by others or purchasing goods on a commission basis for goods traded in the wholesale market, usually between businesses.

Wholesale–other. Check this box if the applicant is engaged in selling goods in the wholesale market generally to other businesses for resale on their own account.

Retail. Check this box if the applicant is engaged in selling merchandise to the general public from a fixed store; by direct, mail-order, or electronic sales; or by using vending machines.

Other. Check this box if the applicant is engaged in an activity not described above. Describe the applicant's principal business activity in the space provided.

Lines 16a-c. Check the applicable box in line 16a to indicate whether or not the entity (or individual) applying for an EIN was issued one previously. Complete lines 16b and 16c **only** if the "Yes" box in line 16a is checked. If the applicant previously applied for **more than one** EIN, write "See Attached" in the empty space in line 16a and attach a separate sheet providing the line 16b and 16c information for each EIN previously requested.

Third Party Designee. Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of Form SS-4. The designee's authority terminates at the time the EIN is assigned and released to the designee. **You must complete the signature area for the authorization to be valid.**

Signature. When required, the application must be signed by **(a)** the individual, if the applicant is an individual, **(b)** the president, vice president, or other principal officer, if the applicant is a corporation, **(c)** a responsible and duly authorized member or officer having knowledge of its affairs, if the applicant is a partnership, government entity, or other unincorporated organization, or **(d)** the fiduciary, if the applicant is a trust or an estate. Foreign applicants may have any duly-authorized person, (e.g., division manager), sign Form SS-4.

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. We need it to comply with section 6109 and the regulations thereunder which generally require the inclusion of an employer identification number (EIN) on certain returns, statements, or other documents filed with the Internal Revenue Service. If your entity is required to obtain an EIN, you are required to provide all of the information requested on this form. Information on this form may be used to determine which Federal tax returns you are required to file and to provide you with related forms and publications.

We disclose this form to the Social Security Administration for their use in determining compliance with applicable laws. We may give this information to the Department of Justice for use in civil and criminal litigation, and to the cities, states, and the District of Columbia for use in administering their tax laws. We may also disclose this information to Federal, state, or local agencies that investigate or respond to acts or threats of terrorism or participate in intelligence or counterintelligence activities concerning terrorism.

We will be unable to issue an EIN to you unless you provide all of the requested information which applies to your entity. Providing false information could subject you to penalties.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	6 min.
Learning about the law or the form	22 min.
Preparing the form	46 min.
Copying, assembling, and sending the form to the IRS	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the form to this address. Instead, see **How To Apply** on page 2.

Form **SS-4**

(Rev. December 2001)

Department of the Treasury
Internal Revenue Service

Application for Employer Identification Number

(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)

► See separate instructions for each line. ► Keep a copy for your records.

EIN

OMB No. 1545-0003

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested

2 Trade name of business (if different from name on line 1)

3 Executor, trustee, "care of" name

4a Mailing address (room, apt., suite no. and street, or P.O. box)

5a Street address (if different) (Do not enter a P.O. box.)

4b City, state, and ZIP code

5b City, state, and ZIP code

6 County and state where principal business is located

7a Name of principal officer, general partner, grantor, owner, or trustor

7b SSN, ITIN, or EIN

8a **Type of entity** (check only one box)

- ☐ Sole proprietor (SSN) ____
- ☐ Partnership
- ☐ Corporation (enter form number to be filed) ► ____
- ☐ Personal service corp.
- ☐ Church or church-controlled organization
- ☐ Other nonprofit organization (specify) ► ____
- ☐ Other (specify) ►
- ☐ Estate (SSN of decedent) ____
- ☐ Plan administrator (SSN) ____
- ☐ Trust (SSN of grantor) ____
- ☐ National Guard
- ☐ Farmers' cooperative
- ☐ REMIC
- ☐ State/local government
- ☐ Federal government/military
- ☐ Indian tribal governments/enterprises

Group Exemption Number (GEN) ► ____

8b If a corporation, name the state or foreign country (if applicable) where incorporated

State	Foreign country

9 **Reason for applying** (check only one box)

- ☐ Started new business (specify type) ► ____
- ☐ Hired employees (Check the box and see line 12.)
- ☐ Compliance with IRS withholding regulations
- ☐ Other (specify) ►
- ☐ Banking purpose (specify purpose) ► ____
- ☐ Changed type of organization (specify new type) ► ____
- ☐ Purchased going business
- ☐ Created a trust (specify type) ► ____
- ☐ Created a pension plan (specify type) ► ____

10 Date business started or acquired (month, day, year)

11 Closing month of accounting year

12 First date wages or annuities were paid or will be paid (month, day, year). **Note:** *If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year)* . . . . ►

13 Highest number of employees expected in the next 12 months. **Note:** *If the applicant does not expect to have any employees during the period, enter "-0-."* . . . . ►

Agricultural	Household	Other

14 Check **one** box that best describes the principal activity of your business.

- ☐ Construction
- ☐ Rental & leasing
- ☐ Transportation & warehousing
- ☐ Real estate
- ☐ Manufacturing
- ☐ Finance & insurance
- ☐ Health care & social assistance
- ☐ Accommodation & food service
- ☐ Other (specify)
- ☐ Wholesale–agent/broker
- ☐ Wholesale–other
- ☐ Retail

15 Indicate principal line of merchandise sold; specific construction work done; products produced; or services provided.

16a Has the applicant ever applied for an employer identification number for this or any other business? . . . . ☐ **Yes** ☐ **No**

Note: *If "Yes," please complete lines 16b and 16c.*

16b If you checked "Yes" on line 16a, give applicant's legal name and trade name shown on prior application if different from line 1 or 2 above.

Legal name ► Trade name ►

16c Approximate date when, and city and state where, the application was filed. Enter previous employer identification number if known.

Approximate date when filed (mo., day, year)	City and state where filed	Previous EIN

Third Party Designee

Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.

Designee's name	Designee's telephone number (include area code) ( )
Address and ZIP code	Designee's fax number (include area code) ( )

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete.

Name and title (type or print clearly) ►

Applicant's telephone number (include area code) ( )

Signature ► Date ►

Applicant's fax number (include area code) ( )

Do I Need an EIN?

File Form SS-4 if the applicant entity does not already have an EIN but is required to show an EIN on any return, statement, or other document.[1] **See also the separate instructions for each line on Form SS-4.**

IF the applicant...	AND...	THEN...
Started a new business	Does not currently have (nor expect to have) employees	Complete lines 1, 2, 4a–6, 8a, and 9–16c.
Hired (or will hire) employees, including household employees	Does not already have an EIN	Complete lines 1, 2, 4a–6, 7a–b (if applicable), 8a, 8b (if applicable), and 9–16c.
Opened a bank account	Needs an EIN for banking purposes only	Complete lines 1–5b, 7a–b (if applicable), 8a, 9, and 16a–c.
Changed type of organization	Either the legal character of the organization or its ownership changed (e.g., you incorporate a sole proprietorship or form a partnership)[2]	Complete lines 1–16c (as applicable).
Purchased a going business[3]	Does not already have an EIN	Complete lines 1–16c (as applicable).
Created a trust	The trust is other than a grantor trust or an IRA trust[4]	Complete lines 1–16c (as applicable).
Created a pension plan as a plan administrator[5]	Needs an EIN for reporting purposes	Complete lines 1, 2, 4a–6, 8a, 9, and 16a–c.
Is a foreign person needing an EIN to comply with IRS withholding regulations	Needs an EIN to complete a Form W-8 (other than Form W-8ECI), avoid withholding on portfolio assets, or claim tax treaty benefits[6]	Complete lines 1–5b, 7a–b (SSN or ITIN optional), 8a–9, and 16a–c.
Is administering an estate	Needs an EIN to report estate income on Form 1041	Complete lines 1, 3, 4a–b, 8a, 9, and 16a–c.
Is a withholding agent for taxes on non-wage income paid to an alien (i.e., individual, corporation, or partnership, etc.)	Is an agent, broker, fiduciary, manager, tenant, or spouse who is required to file **Form 1042,** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons	Complete lines 1, 2, 3 (if applicable), 4a–5b, 7a–b (if applicable), 8a, 9, and 16a–c.
Is a state or local agency	Serves as a tax reporting agent for public assistance recipients under Rev. Proc. 80-4, 1980-1 C.B. 581[7]	Complete lines 1, 2, 4a–5b, 8a, 9, and 16a–c.
Is a single-member LLC	Needs an EIN to file **Form 8832,** Classification Election, for filing employment tax returns, **or** for state reporting purposes[8]	Complete lines 1–16c (as applicable).
Is an S corporation	Needs an EIN to file **Form 2553,** Election by a Small Business Corporation[9]	Complete lines 1–16c (as applicable).

[1] For example, a sole proprietorship or self-employed farmer who establishes a qualified retirement plan, or is required to file excise, employment, alcohol, tobacco, or firearms returns, must have an EIN. **A partnership, corporation, REMIC (real estate mortgage investment conduit), nonprofit organization (church, club, etc.), or farmers' cooperative must use an EIN for any tax-related purpose even if the entity does not have employees.**

[2] However, **do not** apply for a new EIN if the existing entity only **(a)** changed its business name, **(b)** elected on Form 8832 to change the way it is taxed (or is covered by the default rules), or **(c)** terminated its partnership status because at least 50% of the total interests in partnership capital and profits were sold or exchanged within a 12-month period. (The EIN of the terminated partnership should continue to be used. See Regulations section 301.6109-1(d)(2)(iii).)

[3] Do not use the EIN of the prior business unless you became the "owner" of a corporation by acquiring its stock.

[4] However, IRA trusts that are required to file **Form 990-T,** Exempt Organization Business Income Tax Return, must have an EIN.

[5] A plan administrator is the person or group of persons specified as the administrator by the instrument under which the plan is operated.

[6] Entities applying to be a Qualified Intermediary (QI) need a QI-EIN even if they already have an EIN. **See Rev. Proc. 2000-12.**

[7] See also *Household employer* on page 4. (**Note:** State or local agencies may need an EIN for other reasons, e.g., hired employees.)

[8] Most LLCs **do not** need to file Form 8832. See **Limited liability company (LLC)** on page 4 for details on completing Form SS-4 for an LLC.

[9] An existing corporation that is electing or revoking S corporation status should use its previously-assigned EIN.

Appendix B

Employment Agreement for Hiring Family Members

Make copies of the following fill-in-the-blanks form or develop your own, and complete a separate one for each family member you will employ in your home-business.

You have many options for establishing wages.

- If you establish an hourly rate, you will determine pay and document work performed by using simple timesheets.
- If you have established a weekly wage for a set quantity of work to be performed, you will specify, in writing, the work to be performed, and the employee will document each time the tasks are completed.

In all cases, however, you'll need to:

- Establish that the wage you pay is reasonable and customary in your geographic location.
- Obtain documentation that the work was performed (timesheets, employee invoices, work-log, etc.)
- Document that the wages were paid (always pay by check, preferably on a separate business account).

This refers to Chapter VI.

Employment Agreement

As of ________________, ___________________agrees to
(effective date) (name of employer)

employ ___________________________ to perform duties
(name of employee)

as specified below, subject to change from time to time as mutually agreed in writing, and subject to curtailment at any time at the employer's sole discretion.

1. Duties shall include:
____
____
____
____
____
____
____
____
____
____
____
____
____

2. Term. This agreement shall begin on the effective date specified above and shall continue until terminated by either party upon written two-weeks-advance notice to the other.

3. Compensation. Pay shall be weekly/biweekly/monthly
(select by striking-through two (2) of the above)
according to the option checked below:

- $______ per hour, upon submission completed timesheets, with a maximum of ____ hours per pay-period specified above.

- $______ per pay period, upon submission of log showing that all duties specified in this contract were performed.

- _______ percent of net profit of the business, paid annually within 30 days of filing of Business Income Tax Returns.

4. Additional Compensation. If work is offered, agreed to, and performed outside of the scope specified in Para. 1, or as amended, additional remuneration shall be as mutually agreed by both parties.

5. Expenses. The employee is expected to promote the employer's business as a part of his or her on-going duties, and thus may incur expenses from time to time for entertainment, meals, travel, club dues, etc. All such expenditures, if pre-approved by employer, will be reimbursed within 30 days of submission of Claim for Reimbursement of Employee-Incurred Business Expenses, along with required receipts/documentation.

6. Vacation. The employee shall be entitled to take ____ days vacation per year, during which time compensation will/will-not
(strike through one)
be paid.

7. Disability. If employee is unable to perform his/her duties for a period of two consecutive weeks due to illness or incapacity, his/her compensation will continue at a rate 25% less than full-compensation,

for a period of up to six months. Vacation will continue to accrue during this absence. Upon return to full employment, full compensation will be reinstated.

8. Employment-at-Will. This is an employment-at-will agreement, meaning that the employer has the right to terminate this agreement at any time for any reason, or for no reason, upon giving the employee at least two (2) weeks written notice.

9. Severance Clause. If termination is for any reason other than for-cause, two weeks compensation shall be provided on the final day of employment, as a severance fee.

10. Entire Agreement. This document, plus any attached and co-signed Addenda, shall serve as the entire agreement between the two parties.

AGREED AND ACCEPTED:

______________________________	______________________________
(EMPLOYER)	(EMPLOYEE)
______________________________	______________________________
(DATE)	(DATE)

NOTE:
This Draft is for illustration purposes only.
You are advised to have a competent attorney review it
for its legal integrity and applicability in your state or legal jurisdiction.

Appendix C

Self-Insured Medical Reimbursement Plan

Use the following form (edit it as necessary to fit your circumstances) to provide certain medical benefits to your family-member employees, and their family (that's how you get covered).

This relates to Chapter VI of this Guide.

Self-Insured Medical Reimbursement Plan

Effective _______________, ___________________________
(DATE) (YOUR COMPANY NAME)

hereby establishes the following Health and Accident Reimbursement Plan for the exclusive benefit of its employees. This Plan is to be considered "Secondary Coverage" for those employees who are covered under any other Medical Insurance Plan or Plans.

1. Reimbursement for Medical Expenses.

(a.) As of date of employment, per Employment Contract, all employees of _______________________, whether employed
(YOUR COMPANY NAME)
full-time or part-time, qualify to be reimbursed for all Medical Care expenses incurred by the employee and not eligible for coverage under any other Insurance Plan(s) in effect at the time the cost(s) was/were incurred. This Plan is to be considered Secondary Coverage, for reimbursement purposes.

(b.) For purposes of this Plan, Medical Expenses shall be defined by IRS Code, Section 213(d).

(c.) This Plan also covers any employee's spouse and the employee's legal dependents, as defined in IRS Code, Section 152.

(d.) For minor employees, defined as employees less than 18 years of age, any and all benefits due under this Plan will be made payable to the parent or legal guardian of the employee.

(e.) In lieu of providing reimbursement for expenses for which the employee or his/her dependent would be eligible under this Plan, the employer may, at his/her option, elect to pay the expenses directly to the service provider.

(f.) Benefits under this Plan shall be limited to $_________ per eligible person per Plan Year.

2. Continuation of Compensation During Periods of Disability.

(a.) **Short Term Disability**. Effective immediately upon employment, should an employee covered under this Plan become disabled and unable to perform his/her duties as specified in his/her Employment Agreement, his/her Compensation will continue at a rate of twenty-five (25) percent less than full Compensation, for a period of up to six (6) months.

(b.) **Long Term Disability.** If disability continues for more than six (6) months, employer shall, beginning in the seventh month, pay the employee at a rate of fifty (50) percent of his/her normal, full Compensation, until the Employee is able to return to work, or for one year, whichever comes first.

3. Secondary Coverage.

(a.) As previously stated and alluded to, eligibility for reimbursement under this Plan shall be limited to such amounts as not covered under any other Medical Insurance Plan under which the employee/ dependent is covered and/or any government Medical Reimbursement Plan under which the employee/ dependent is covered.

4. Covered Medical Expenses.

(a.) In addition to costs customarily considered to be "medical expenses," this Plan also included costs for annual eye exams, reading glasses, contact lenses and/or surgery to correct vision; routine dental check-ups, and any and all necessary and required dental preventive care, repair and restoration; and outpatient or inpatient treatment for chemical dependency, drug/alcohol abuse and psychiatric disorders.

5. Termination and Amendments to this Plan.

(a.) The employer may, at his sole discretion, elect to terminate or modify this Plan for any reason.

(b.) Any termination of this Plan or changes or modifications thereto, shall be communicated to all covered employees in writing at least sixty (60) days prior to the effective date of the termination or change in coverage.

6. IRS Exclusions.

(a.) It is the intent of the provider of this Medical Coverage that all medical benefits paid to an eligible employee under this Plan shall be eligible for exclusion from the gross income of the employee and/or his/her parent or legal guardian, as provided for in Sections 105 and 106 of the Internal Revenue Code.

Employee Acknowledgement:

I have read this employee benefit entitled Self-Insured Medical Reimbursement Plan and I understand how it applies to me personally.

____

(Employee's Signature)

____

(Date of Signing

____

(Employee's Printed Name)

NOTE:
This Draft is for illustration purposes only.
You are advised to have a competent attorney review it
for its legal integrity and applicability in your state or legal jurisdiction.

Appendix D

Vehicle-Use Log

Make lots of copies of the following Vehicle-Use Log, and always keep spare ones handy in any vehicle(s) you will be using for your business.

If you keep your Vehicle-Use Log in a place where you always see it when entering the vehicle (on the dash, on the console, etc.) and always have a pen or pencil with it, you won't forget to fill it out and you can reduce this to about a 3-second chore.

Remember, this little bit of paperwork is earning you a $1,000 deduction for every 3,000 business miles you drive, every time your car moves. That's thousands in deductions by the end of each year.

This relates to Chapter VIII of this Guide.

Vehicle Use Log

Date	Starting Odometer Reading	Ending Odometer Reading	Total Miles Traveled	Expenses Incurred (gas, tolls, etc.)
Destination:				
Purpose of Trip:				
Date	**Starting Odometer Reading**	**Ending Odometer Reading**	**Total Miles Traveled**	**Expenses Incurred (gas, tolls, etc.)**
Destination:				
Purpose of Trip:				
Date	**Starting Odometer Reading**	**Ending Odometer Reading**	**Total Miles Traveled**	**Expenses Incurred (gas, tolls, etc.)**
Destination:				
Purpose of Trip:				
Date	**Starting Odometer Reading**	**Ending Odometer Reading**	**Total Miles Traveled**	**Expenses Incurred (gas, tolls, etc.)**
Destination:				
Purpose of Trip:				
Date	**Starting Odometer Reading**	**Ending Odometer Reading**	**Total Miles Traveled**	**Expenses Incurred (gas, tolls, etc.)**
Destination:				
Purpose of Trip:				
Date	**Starting Odometer Reading**	**Ending Odometer Reading**	**Total Miles Traveled**	**Expenses Incurred (gas, tolls, etc.)**
Destination:				
Purpose of Trip:				

Appendix E

IRS Form W-4

Employee Withholding Allowance Form

Following is the official W-4 form as provided by the Internal Revenue Service. Fill this form out whenever you need to adjust your withholding allowances. You need to do this in order to calculate your best possible estimate so that you ultimately break even by the end of the year, such as when you increase your withholding allowances so that you can receive an increase in your take-home pay, as explained in earlier parts of this system.

NOTE: Consult with your tax professional on a regular basis (at least quarterly) to determine if your W-4 needs to be adjusted to accommodate changes in your situation.

Form W-4 (2002)

Purpose. Complete Form W-4 so your employer can withhold the correct Federal income tax from your pay. Because your tax situation may change, you may want to refigure your withholding each year.

Exemption from withholding. If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2002 expires February 16, 2003. See **Pub. 505,** Tax Withholding and Estimated Tax.

Note: *You cannot claim exemption from withholding if* ***(a)*** *your income exceeds $750 and includes more than $250 of unearned income (e.g., interest and dividends) and* ***(b)*** *another person can claim you as a dependent on their tax return.*

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized deductions, certain credits, adjustments to income, or two-earner/two-job situations. Complete all worksheets that apply. **However, you may claim fewer (or zero) allowances.**

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See line **E** below.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See **Pub. 919,** How Do I Adjust My Tax Withholding? for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends, consider making estimated tax payments using **Form 1040-ES,** Estimated Tax for Individuals. Otherwise, you may owe additional tax.

Two earners/two jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others.

Nonresident alien. If you are a nonresident alien, see the **Instructions for Form 8233** before completing this Form W-4.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the dollar amount you are having withheld compares to your projected total tax for 2002. See Pub. 919, especially if you used the **Two-Earner/Two-Job Worksheet** on page 2 and your earnings exceed $125,000 (Single) or $175,000 (Married).

Recent name change? If your name on line 1 differs from that shown on your social security card, call 1-800-772-1213 for a new social security card.

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for **yourself** if no one else can claim you as a dependent . . . . **A** ______

B Enter "1" if:
- ? You are single and have only one job; or
- ? You are married, have only one job, and your spouse does not work; or . . **B** ______
- ? Your wages from a second job or your spouse's wages (or the total of both) are $1,000 or less.

C Enter "1" for your **spouse.** But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.) . . . . **C** ______

D Enter number of **dependents** (other than your spouse or yourself) you will claim on your tax return . . . . **D** ______

E Enter "1" if you will file as **head of household** on your tax return (see conditions under **Head of household** above) . **E** ______

F Enter "1" if you have at least $1,500 of **child or dependent care expenses** for which you plan to claim a credit . . **F** ______
(**Note:** *Do* ***not*** *include child support payments. See* ***Pub. 503,*** *Child and Dependent Care Expenses, for details.*)

G **Child Tax Credit** (including additional child tax credit):
- ? If your total income will be between $15,000 and $42,000 ($20,000 and $65,000 if married), enter "1" for each eligible child plus **1 additional** if you have three to five eligible children or **2 additional** if you have six or more eligible children.
- ? If your total income will be between $42,000 and $80,000 ($65,000 and $115,000 if married), enter "1" if you have one or two eligible children, "2" if you have three eligible children, "3" if you have four eligible children, or "4" if you have five or more eligible children. **G** ______

H Add lines A through G and enter total here. **Note:** *This may be different from the number of exemptions you claim on your tax return.* ? **H** ______

For accuracy, complete all worksheets that apply.
- ? If you plan to **itemize or claim adjustments to income** and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
- ? If you have **more than one job** or are **married and you and your spouse both work** and the combined earnings from all jobs exceed $35,000, see the **Two-Earner/Two-Job Worksheet** on page 2 to avoid having too little tax withheld.
- ? If **neither** of the above situations applies, **stop here** and enter the number from line H on line 5 of Form W-4 below.

Cut here and give Form W-4 to your employer. Keep the top part for your records.

Form **W-4**
Department of the Treasury
Internal Revenue Service

Employee's Withholding Allowance Certificate

? **For Privacy Act and Paperwork Reduction Act Notice, see page 2.**

OMB No. 1545-0010
2002

1 Type or print your first name and middle initial	Last name	**2** Your social security number
Home address (number and street or rural route)	**3** ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. **Note:** *If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.*	
City or town, state, and ZIP code	**4** **If your last name differs from that on your social security card, check here. You must call 1-800-772-1213 for a new card.** ? ☐	

5 Total number of allowances you are claiming (from line **H** above **or** from the applicable worksheet on page 2) **5**

6 Additional amount, if any, you want withheld from each paycheck . . . . **6** $

7 I claim exemption from withholding for 2002, and I certify that I meet **both** of the following conditions for exemption:
- ? Last year I had a right to a refund of **all** Federal income tax withheld because I had **no** tax liability **and**
- ? This year I expect a refund of **all** Federal income tax withheld because I expect to have **no** tax liability.

If you meet both conditions, write "Exempt" here . . . . ? **7**

Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or I am entitled to claim exempt status.

Employee's signature
(Form is not valid
unless you sign it.) ? **Date** ?

8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)	**9** Office code (optional)	**10** Employer identification number

Deductions and Adjustments Worksheet

Note: *Use this worksheet only if you plan to itemize deductions, claim certain credits, or claim adjustments to income on your 2002 tax return.*

1	Enter an estimate of your 2002 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 2002, you may have to reduce your itemized deductions if your income is over $137,300 ($68,650 if married filing separately). See **Worksheet 3** in Pub. 919 for details.)	1	$
2	Enter: $7,850 if married filing jointly or qualifying widow(er); $6,900 if head of household; $4,700 if single; $3,925 if married filing separately	2	$
3	**Subtract** line 2 from line 1. If line 2 is greater than line 1, enter "-0-"	3	$
4	Enter an estimate of your 2002 adjustments to income, including alimony, deductible IRA contributions, and student loan interest	4	$
5	**Add** lines 3 and 4 and enter the total. Include any amount for credits from **Worksheet 7** in Pub. 919.	5	$
6	Enter an estimate of your 2002 nonwage income (such as dividends or interest)	6	$
7	**Subtract** line 6 from line 5. Enter the result, but not less than "-0-"	7	$
8	**Divide** the amount on line 7 by $3,000 and enter the result here. Drop any fraction	8	
9	Enter the number from the **Personal Allowances Worksheet,** line H, page 1	9	
10	**Add** lines 8 and 9 and enter the total here. If you plan to use the **Two-Earner/Two-Job Worksheet,** also enter this total on line 1 below. Otherwise, **stop here** and enter this total on Form W-4, line 5, page 1	10	

Two-Earner/Two-Job Worksheet

Note: *Use this worksheet only if the instructions under line H on page 1 direct you here.*

1	Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**)	1	
2	Find the number in **Table 1** below that applies to the **lowest** paying job and enter it here	2	
3	If line 1 is **more than or equal to** line 2, subtract line 2 from line 1. Enter the result here (if zero, enter "-0-") and on Form W-4, line 5, page 1. **Do not** use the rest of this worksheet	3	

Note: *If line 1 is **less than** line 2, enter "-0-" on Form W-4, line 5, page 1. Complete lines 4–9 below to calculate the additional withholding amount necessary to avoid a year end tax bill.*

4	Enter the number from line 2 of this worksheet — 4		
5	Enter the number from line 1 of this worksheet — 5		
6	**Subtract** line 5 from line 4	6	
7	Find the amount in **Table 2** below that applies to the **highest** paying job and enter it here	7	$
8	**Multiply** line 7 by line 6 and enter the result here. This is the additional annual withholding needed	8	$
9	Divide line 8 by the number of pay periods remaining in 2002. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2001. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck	9	$

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly				All Others			
If wages from **LOWEST** paying job are-	Enter on line 2 above	If wages from **LOWEST** paying job are-	Enter on line 2 above	If wages from **LOWEST** paying job are-	Enter on line 2 above	If wages from **LOWEST** paying job are-	Enter on line 2 above
$0 - $4,000	0	44,001 - 50,000	8	$0 - $6,000	0	75,001 - 95,000	8
4,001 - 9,000	1	50,001 - 55,000	9	6,001 - 11,000	1	95,001 - 110,000	9
9,001 - 15,000	2	55,001 - 65,000	10	11,001 - 17,000	2	110,001 and over	10
15,001 - 20,000	3	65,001 - 80,000	11	17,001 - 23,000	3		
20,001 - 25,000	4	80,001 - 95,000	12	23,001 - 28,000	4		
25,001 - 32,000	5	95,001 - 110,000	13	28,001 - 38,000	5		
32,001 - 38,000	6	110,001 - 125,000	14	38,001 - 55,000	6		
38,001 - 44,000	7	125,001 and over	15	55,001 - 75,000	7		

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from **HIGHEST** paying job are-	Enter on line 7 above	If wages from **HIGHEST** paying job are-	Enter on line 7 above
$0 - $50,000	$450	$0 - $30,000	$450
50,001 - 100,000	800	30,001 - 70,000	800
100,001 - 150,000	900	70,001 - 140,000	900
150,001 - 270,000	1,050	140,001 - 300,000	1,050
270,001 and over	1,150	300,001 and over	1,150

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. **Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may also subject you to penalties.** Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, and the District of Columbia for use in administering their tax laws, and using it in the National Directory of New Hires.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping,** 46 min.; **Learning about the law or the form,** 13 min.; **Preparing the form,** 59 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **Do not** send the tax form to this address. Instead, give it to your employer.

Appendix F

Your Business Plan DRAFT

Most Business Plans are long and complex. But the short one that follows meets all criteria required by the IRS for proving:

1. **That you have a legitimate BUSINESS**, not a hobby, thus protecting you from the "hobby-loss rule."

2. **That your business is based in your HOME**, thus protecting you from the "exclusive use" restrictions of "home office" rules.

3. **That you have an INTENT to produce a profit**, which allows you to write-off net business losses, year after year if necessary.

What follows is just a draft. Feel free to modify it, expand it, edit it, and make it more specific so that it accurately reflects your current and future business activity.

Note: Let's say your business is selling a nutrition product line. You might be tempted to call your business something like "Feel Better, Live Longer."

Later, you might develop an additional, totally separate line of business, in which you help people write better resumes, and you call it "Killer Resumes that Get You in the Door."

Since these are separate businesses, you could be expected to file two separate Schedule C's with each Tax Return.

Or you could (which I highly recommend) establish a broader business name, such as, in my case, Mueller Enterprises. A broader name like that allows the flexibility to add, delete and change the mix of business lines, and to file only one Schedule C.

Essentially, each "business" is treated, for tax purposes, as if it were a separate department within one company. If you decide to stop doing one of your activities, you will have closed down a department of your company, but not your Company.

That makes thing much simpler, and has lots of tax advantages.

Business Plan

of

(Name of Your Company)

established on

(Month, Date & Year)

by

(Your Name **)**

Principal

(insert Your Mailing Address)
(Your Telephone number, Fax number, E-mail address)

Business Plan

Table of Contents

Business Plan

of

(Name of Your Company) ®

a Sole-Proprietorship Business registered by (Your Name) in the State of (your State) .

Vision Statement

(Your Company Name)®, founded in **(insert year)** as a home-based business, intends to profitably mass market a growing number of products and services to the general buying public. Due to low product prices, high retail profit margins, large target audiences, and the tax advantages available to me by running this as a home-based businesses, I intend to produce a substantial profit, over a period of time.

Mission Statement

(Insert Name of Business) will provide top-quality products and services at the best prices to my customers through personal sales, direct-marketing, paid and/or non-paid advertising, in-home product demonstrations, catalog sales, online promotion, fundraising support, etc.

In order to achieve my Vision, I have educated myself fully on the products and services I will provide, and on the target audiences to whom I will sell.

Target Prospects

The ideal target prospects for my company's products/services fall into these broad categories:

- Xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxx..

- Yyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyy yyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyy yyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyyy yyyyyyyyyyyyyyyyyyyyyyyyyyyyy.

- Zzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzz zzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzzz zzzzzzzzzzzzzzzzzzzzzzzzzzzzzz.

Customer Profiles

The ideal Customer possesses these qualities and/or needs:

- 111111111111111111111111111111
- 222222222222222222222222222222222
- 33333333333333333333333333, and
- 444444444444444444444444.

Competitive Environment

Competitors include XXXXXXXXXXXX, Inc., which provides xxxxxxxxx, YYYYYYYYYYYY, Inc. whose product line includes xxxxxxxxxxxxxxxxxx, and ZZZZZZZZZZZZ, Inc. whose advantage is xxxxxxxxxxxx.

Our Marketing Advantage

In order to successfully sell against our competitors, we will offer xxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx.

Marketing Plan

(Your Company's Name)'s marketing strategy is to aggressively promote ____________________ products and services, on a local/statewide/regional/nationwide **(state one or more)** basis through retail customers, friends, relatives, business associates, and new prospects generated through direct mail, advertising and all other direct marketing approaches, capitalizing on the fact that we offer three distinct benefits:

A. Aaaaaaaaaaaaaaaaaaaaaaaa
B. Bbbbbbbbbbbbbbb, and
C. Ccccccccccccccccccccccccccccccc.

Therefore, the daily modus operandi of the President & Chief Executive Officer of **(Insert Name of Your Company)** will be to promote the business starting with a prospecting or sales call as his/her first stop upon leaving his/her business location (i.e., home) each day, continuing as possible throughout the day, and ending each evening with a final prospecting or sales call. This will include:

- Prospecting and making price comparisons at various merchant establishments rather than simply "shopping,"
- Prospecting and promoting my company's products and services whenever playing golf, fishing or other social or sporting activities conducive to business discussions;
- Promoting my company's products/services at church, school and numerous other appropriate functions.

Sales Strategies

Because of the universal appeal of my company's product lines, low prices, and unique sales advantages we will capitalize on with the following retail sales strategies:

Direct Sales:
Many of my retail customers with entrepreneurial potential will be converted to product distributors by simply showing them the tax advantages of owning their own business and how they can also save by buying products at wholesale for personal use and retail sale.

Gift Giving:
Once recipients of gift certificates contact me for redemption, I will offer them the opportunity to convert to Independent Marketing Associate or Distributor status in order to enjoy even lower product costs. Duplication of this process will lead to hundreds and then to thousands of new customers who might then convert to independent distributor status and duplicate the process over and over.

Fundraising:
I will provide FREE membership in my organization to any bona fide not-for-profit organization in order to help them establish, promote and conduct a successful fundraising program. As a Member, the organization may order products at wholesale price and sell at retail; and if they choose to become an Independent Distributor, they may sponsor other Independent Distributors or organizations and enjoy commissions and bonus qualifications on the total volume of their sales organization.

One of the unique and effective programs for fundraising groups is to simply order gift certificates at 50% off retail, then sell them within their group at 25% off. Once the recipients contact them for redemption, they may also offer the recipients the opportunity to convert to Independent Distributor status in order to enjoy the much lower product costs. Duplication of this process will lead to hundreds and then thousands of new customers who would then convert to Independent Distributor status and duplicate the process over and over.

Networkers:
Experts say that between 10-million and 15-million Americans are involved in network marketing today. Most are with companies that sell

good quality, but generally overpriced products. My company's low prices and substantial advantages mean that these millions of experienced networkers are prime candidates for my business opportunity.

Direct-Mail Advertising:
In order to reach the millions of experienced networkers outlined above, as well as tens of millions other people interested in reducing their taxes legally, morally and ethically, I will aggressively conduct a Direct Mail marketing program as a part of my marketing efforts.

Classified Advertising:
In order to reach the millions of potential retail buyers as well as potential Independent Distributors, we will explore the use of various forms of Classified Advertising to seek out prospects.

Word-of-Mouth:
Since the most effective and most highly credible form of advertising is word-of-mouth advertising from satisfied customers, we will compensate our current customers to provide us references to new prospective customers.

Media Exposure:
Since it is possible to make the success of our company and the products we sell to appear "newsworthy" and to be of "human interests," we will attempt to interest local broadcast and print media in providing "free advertising" for our company and our products.

In-Home Sales Meetings:
Recognizing that the products and services provided by **(insert name of your Company)** will be of benefit and of interest to the President's own friends, family, contacts, former customers/clients, acquaintances, neighbors, colleagues, fellow civic club members, former employers and employees, vendors, suppliers, etc., in-home presentation meetings are planned.

Conclusion

(Name of company) will establish a track record of cost-effective products, excellent support and exemplary service to our customers. Their expressions of satisfaction and encouragement will become numerous.

The products and services offered and marketed by **(Name of company)** will continue to expand and diversify over time, to eventually encompass a wide array of profitable business entities, operating under the umbrella name of **(Name of company).**

Following an initial period of start-up losses, **(Name of company)** intends to become a highly profitable, tax-paying business entity.

Appendix G

If your net income from self-employment is greater than $432, you will be required to file an IRS Form 1040, **Schedule SE**, which is the form for Self-Employment Tax.

(**Note:** Special rules apply to ministers.)

Following is the form you must file…

2001 Instructions for Schedule SE, Self-Employment Tax

Use Schedule SE (Form 1040) to figure the tax due on net earnings from self-employment. The Social Security Administration uses the information from Schedule SE to figure your benefits under the social security program. This tax applies no matter how old you are and even if you are already getting social security or Medicare benefits.

Additional Information. See **Pub. 533.**

General Instructions

A Change To Note

For 2001, the maximum amount of self-employment income subject to social security tax is $80,400.

Who Must File Schedule SE

You must file Schedule SE if:

1. Your net earnings from self-employment (see page SE-2) from other than church employee income were $400 or more or

2. You had church employee income of $108.28 or more—see **Employees of Churches and Church Organizations** below.

Who Must Pay Self-Employment (SE) Tax?

Self-Employed Persons

You must pay SE tax if you had net earnings of $400 or more as a self-employed person. If you are in business for yourself or you are a farmer, you are self-employed.

You must also pay SE tax on your share of certain partnership income and your guaranteed payments. See **Partnership Income or Loss** on page SE-2.

Employees of Churches and Church Organizations

If you had church employee income of $108.28 or more, you must pay SE tax. **Church employee income** is wages you received as an employee (other than as a minister or member of a religious order) from a church or qualified church-controlled organization that has a certificate in effect electing an exemption from employer social security and Medicare taxes.

Ministers and Members of Religious Orders

In most cases, you must pay SE tax on salaries and other income for services you performed as a minister, a member of a religious order who has not taken a vow of poverty, or a Christian Science practitioner. But if you filed **Form 4361** and received IRS approval, you will be exempt from paying SE tax on those net earnings. If you had no other income subject to SE tax, write "Exempt–Form 4361" on line 53 of Form 1040. However, if you had other earnings of $400 or more subject to SE tax, see line A at the top of Long Schedule SE.

Revocation of Election. If you previously filed Form 4361 and received IRS approval, you can revoke that election to be exempt from SE tax. To do so, you must file **Form 2031** by the due date (including extensions) of your 2001 tax return. See Form 2031 for details.

Note. Once you file Form 2031 to elect social security coverage on your earnings as a minister you cannot revoke that election.

If you must pay SE tax, include this income on line 2 of either Short or Long Schedule SE. But do not report it on line 5a of Long Schedule SE; it is not considered church employee income. Also, include on line 2:

- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) and
- The value of meals and lodging provided to you, your spouse, and your dependents for your employer's convenience.

However, **do not** include on line 2:

- Retirement benefits you received from a church plan after retirement or
- The rental value of a home or an allowance for a home furnished to you (including payments for utilities) after retirement.

If you were a duly ordained minister who was an employee of a church and you must pay SE tax, the unreimbursed business expenses that you incurred as a church employee are allowed only as an itemized deduction for income tax purposes. Subtract the allowable amount from your SE earnings when figuring your SE tax.

If you were a U.S. citizen or resident alien serving outside the United States as a minister or member of a religious order and you must pay SE tax, you may not reduce your net earnings by the foreign housing exclusion or deduction.

See **Pub. 517** for details.

Members of Certain Religious Sects

If you have conscientious objections to social security insurance because of your membership in and belief in the teachings of a religious sect recognized as being in existence at all times since December 31, 1950, and which has provided a reasonable level of living for its dependent members, you are exempt from SE tax if you received IRS approval by filing **Form 4029.** In this case, do not file Schedule SE. Instead, write "Exempt–Form 4029" on Form 1040, line 53. See Pub. 517 for details.

U.S. Citizens Employed by Foreign Governments or International Organizations

You must pay SE tax on income you earned as a U.S. citizen employed by a foreign government (or, in certain cases, by a wholly owned instrumentality of a foreign government or an international organization under the International Organizations Immunities Act) for services performed in the United States, Puerto Rico, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), or the Virgin Islands. Report income from this employment on Schedule SE (Section A or B), line 2. If you performed services elsewhere as an employee of a foreign government or an international organization, those earnings are exempt from SE tax.

U.S. Citizens or Resident Aliens Living Outside the United States

If you are a self-employed U.S. citizen or resident alien living outside the United States, in most cases you must pay SE tax. You may not reduce your foreign earnings from self-employment by your foreign earned income exclusion.

Cat. No. 24334P

Exception. The United States has social security agreements with many countries to eliminate dual taxes under two social security systems. Under these agreements, you must generally pay social security and Medicare taxes to only the country you live in.

The United States now has social security agreements with the following countries: Austria, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, and the United Kingdom. Additional agreements are expected in the future. If you have questions about international social security agreements, you can:

- Visit the Social Security Administration (SSA) Web Site at www.ssa.gov/international,
- Call the SSA Office of International Programs at (410) 965-3548 or (410) 965-3554, or
- Write to Social Security Administration, Office of International Programs, P.O. Box 17741, Baltimore, MD 21235-7741.

More Than One Business

If you were a farmer and had at least one other business or you had two or more businesses, your net earnings from self-employment are the combined net earnings from all of your businesses. If you had a loss in one business, it reduces the income from another. Figure the combined SE tax on one Schedule SE.

Joint Returns

Show the name of the spouse with SE income on Schedule SE. If both spouses have SE income, each must file a separate Schedule SE. However, if one spouse qualifies to use Short Schedule SE and the other has to use Long Schedule SE, both can use the **same** form. One spouse should complete the front and the other the back.

Include the total profits or losses from all businesses on Form 1040, as appropriate. Enter the combined SE tax on Form 1040, line 53.

Community Income

In most cases, if any of the income from a business (including farming) is community income, all of the income from that business is SE earnings of the spouse who carried on the business. The facts in each case will determine which spouse carried on the business. If you and your spouse are partners in a partnership, see **Partnership Income or Loss** below.

If you and your spouse had community income and file separate returns, attach Schedule SE to the return of the spouse with the SE income. Also, attach Schedule(s) C, C-EZ, or F to the return of each spouse.

If you are the spouse who carried on the business, you must include on line 3, Schedule SE, the net profit or (loss) reported on the other spouse's Schedule C, C-EZ, or F (except income not included in net earnings from self-employment as explained on page SE-3). Enter on the dotted line to the left of line 3, Schedule SE, "Community Income Taxed to Spouse" and the amount of any net profit or (loss) allocated to your spouse as community income. Combine that amount with the total of lines 1 and 2 and enter the result on line 3.

If you are not the spouse who carried on the business and you had no other income subject to SE tax, enter "Exempt Community Income" on Form 1040, line 53; **do not** file Schedule SE. However, if you had other earnings subject to SE tax of $400 or more, enter on the dotted line to the left of line 3, Schedule SE, "Exempt Community Income" and the amount of the net profit or (loss) from Schedule C, C-EZ, or F allocated to you as community income. If that amount is a net profit, subtract it from the total of lines 1 and 2, and enter the result on line 3. If that amount is a loss, treat it as a positive amount, add it to the total of lines 1 and 2, and enter the result on line 3.

CAUTION Community income included on Schedule(s) C, C-EZ, or F must be divided for income tax purposes on the basis of the community property laws.

Fiscal Year Filers

If your tax year is a fiscal year, use the tax rate and earnings base that apply at the time the fiscal year begins. Do not prorate the tax or earnings base for a fiscal year that overlaps the date of a rate or earnings base change.

Specific Instructions

Read the chart on page 1 of Schedule SE to see if you can use **Section A,** Short Schedule SE, or if you must use **Section B,** Long Schedule SE. For either section, you need to know what to include as net earnings from self-employment. Read the following instructions to see what to include as net earnings and how to fill in lines 1 and 2 of either Short or Long Schedule SE. Enter all negative amounts in parentheses.

Net Earnings From Self-Employment

What Is Included in Net SE Earnings?

In most cases, net earnings include your net profit from a farm or nonfarm business. If you were a partner in a partnership, see the following instructions.

Partnership Income or Loss

If you were a general or limited partner in a partnership, include on line 1 or line 2, whichever applies, the amount from line 15a of Schedule K-1 (Form 1065) or the amount identified as net earnings from self-employment in box 9 of Schedule K-1 (Form 1065-B). General partners should reduce this amount before entering it on Schedule SE by any section 179 expense deduction claimed, unreimbursed partnership expenses claimed, and depletion claimed on oil and gas properties. If you reduce the amount you enter on Schedule SE, attach an explanation.

If a partner died and the partnership continued, include in SE income the deceased's distributive share of the partnership's ordinary income or loss through the end of the month in which he or she died. See Internal Revenue Code section 1402(f).

If you were married and both you and your spouse were partners in a partnership, each of you must pay SE tax on your own share of the partnership income. Each of you must file a Schedule SE and report the partnership income or loss on **Schedule E** (Form 1040), Part II, for income tax purposes.

SE income belongs to the person who is the member of the partnership and cannot be treated as SE income by the nonmember spouse even in community property states.

Share Farming

You are considered self-employed if you produced crops or livestock on someone else's land for a share of the crops or livestock produced (or a share of the proceeds from the sale of them). This applies even if you paid another person (an agent) to do the actual work or management for you. Report your net earnings for income tax purposes on **Schedule F** (Form 1040) and for SE tax purposes on Schedule SE. See **Pub. 225** for details.

Other Income and Losses Included in Net Earnings From Self-Employment

- Rental income from a farm if, as landlord, you materially participated in the production or management of the production of farm products on this land. This income is farm earnings. To determine whether you materially participated in farm management or production, do not consider the activities of any agent who acted for you. The material participation tests are explained in Pub. 225.

- Cash or a payment-in-kind from the Department of Agriculture for participating in a land diversion program.

- Payments for the use of rooms or other space when you also provided substantial services. Examples are hotel rooms, boarding houses, tourist camps or homes, parking lots, warehouses, and storage garages.

- Income from the retail sale of newspapers and magazines if you were age 18 or older and kept the profits.

- Amounts received by current or former self-employed insurance agents and salespersons that are:

1. Paid after retirement but figured as a percentage of commissions received from the paying company before retirement,

2. Renewal commissions, or

3. Deferred commissions paid after retirement for sales made before retirement.

However, certain termination payments received by former insurance salespersons are not included in net earnings from self-employment (as explained below under **Income and Losses Not Included in Net Earnings From Self-Employment**).

- Income of certain crew members of fishing vessels with crews of normally fewer than 10 people. See **Pub. 595** for details.

- Fees as a state or local government employee if you were paid only on a fee basis and the job was not covered under a Federal-state social security coverage agreement.

- Interest received in the course of any trade or business, such as interest on notes or accounts receivable.

- Fees and other payments received by you for services as a director of a corporation.

- Recapture amounts under sections 179 and 280F that you included in gross income because the business use of the property dropped to 50% or less. Do not include amounts you recaptured on the disposition of property. See **Form 4797.**

- Fees you received as a professional fiduciary. This may also apply to fees paid to you as a nonprofessional fiduciary if the fees relate to active participation in the operation of the estate's business, or the management of an estate that required extensive management activities over a long period of time.

- Gain or loss from section 1256 contracts or related property by an options or commodities dealer in the normal course of dealing in or trading section 1256 contracts.

Income and Losses Not Included in Net Earnings From Self-Employment

- Salaries, fees, etc., subject to social security or Medicare tax that you received for performing services as an employee, including services performed as a public official (except as a fee basis government employee as explained earlier under **Other Income and Losses Included in Net Earnings From Self-Employment**) or as an employee or employee representative under the railroad retirement system.

- Fees received for services performed as a notary public. If you had no other income subject to SE tax, enter "Exempt-Notary" on Form 1040, line 53. However, if you had other earnings of $400 or more subject to SE tax, enter "Exempt-Notary" and the amount of your net profit as a notary public from Schedule C or Schedule C-EZ on the dotted line to the left of line 3, Schedule SE. Subtract that amount from the total of lines 1 and 2 and enter the result on line 3.

- Income you received as a retired partner under a written partnership plan that provides for lifelong periodic retirement payments if you had no other interest in the partnership and did not perform services for it during the year.

- Income from real estate rentals if you did not receive the income in the course of a trade or business as a real estate dealer. Report this income on Schedule E.

- Income from farm rentals (including rentals paid in crop shares) if, as landlord, you did not materially participate in the production or management of the production of farm products on the land. See Pub. 225 for details.

- Dividends on shares of stock and interest on bonds, notes, etc., if you did not receive the income in the course of your trade or business as a dealer in stocks or securities.

- Gain or loss from:

1. The sale or exchange of a capital asset;

2. The sale, exchange, involuntary conversion, or other disposition of property unless the property is stock in trade or other property that would be includible in inventory, or held primarily for sale to customers in the ordinary course of the business; or

3. Certain transactions in timber, coal, or domestic iron ore.

- Net operating losses from other years.

- Termination payments you received as a former insurance salesperson if **all** of the following conditions are met.

1. The payment was received from an insurance company because of services you performed as an insurance salesperson for the company.

2. The payment was received after termination of your agreement to perform services for the company.

3. You did not perform any services for the company after termination and before the end of the year in which you received the payment.

4. You entered into a covenant not to compete against the company for at least a 1-year period beginning on the date of termination.

5. The amount of the payment depended primarily on policies sold by or credited to your account during the last year of the agreement, or the extent to which those policies remain in force for some period after termination, or both.

6. The amount of the payment did not depend to any extent on length of service or overall earnings from services performed for the company (regardless of whether eligibility for the payment depended on length of service).

Statutory Employee Income

If you were required to check the box on line 1 of Schedule C or C-EZ because you were a statutory employee, **do not** include the net profit or (loss) from line 31 of that Schedule C (or the net profit from line 3 of Schedule C-EZ) on line 2 of Short or Long Schedule SE. But if you file Long Schedule SE, be sure to include statutory employee social security wages and tips from Form W-2 on line 8a.

Optional Methods

How Can the Optional Methods Help You?

Social Security Coverage. The optional methods may give you credit toward your social security coverage even though you have a loss or a small amount of income from self-employment.

Earned Income Credit. Using the optional methods may qualify you to claim the earned income credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than $1,600. Figure the earned income credit with and without using the optional methods to see if the optional methods will benefit you.

Additional Child Tax Credit. Using the optional methods may qualify you to claim the additional child tax credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than $1,600. Figure the additional child tax credit with and without using the optional methods to see if the optional methods will benefit you.

Child and Dependent Care Credit. The optional methods may also help you qualify for this credit or give you a larger credit if your net SE earnings (determined without using the optional methods) are less than $1,600. Figure this credit with and without using the optional methods to see if the optional methods will benefit you.

Note. Using the optional methods may give you the benefits described above but they may also increase your SE tax.

Farm Optional Method

You may use this method to figure your net earnings from farm self-employment if your gross farm income was $2,400 or less **or** your net farm profits (defined below) were less than $1,733. There is no limit on how many years you can use this method.

Under this method, you report on line 15, Part II, two-thirds of your gross farm income, up to $1,600, as your net earnings. This method can increase or decrease your net SE farm earnings even if the farming business had a loss.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do this, file **Form 1040X.**

For a farm partnership, figure your share of gross income based on the partnership agreement. With guaranteed payments, your share of the partnership's gross income is your guaranteed payments plus your share of the gross income after it is reduced by all guaranteed payments made by the partnership. If you were a limited partner, include only guaranteed payments for services you actually rendered to or on behalf of the partnership.

Net farm profits is the total of the amounts from Schedule F (Form 1040), line 36, and Schedule K-1 (Form 1065), line 15a, from farm partnerships.

Nonfarm Optional Method

You may be able to use this method to figure your net earnings from nonfarm self-employment if your net nonfarm profits (defined below) were less than $1,733 and also less than 72.189% of your gross nonfarm income. To use this method, you also must be regularly self-employed. You meet this requirement if your actual net earnings from self-employment were $400 or more in 2 of the 3 years preceding the year you use the nonfarm method. The net earnings of $400 or more could be from either farm or nonfarm earnings or both. The net earnings include your distributive share of partnership income or loss subject to SE tax. Use of the nonfarm optional method from nonfarm self-employment is limited to 5 years. The 5 years do not have to be consecutive.

Under this method, you report on line 17, Part II, two-thirds of your gross nonfarm income, up to $1,600, as your net earnings. But **you may not report less than your actual net earnings** from nonfarm self-employment.

You may change the method after you file your return. That is, you can change from the regular to the optional method or from the optional to the regular method. To do so, file Form 1040X.

Figure your share of gross income from a nonfarm partnership in the same manner as a farm partnership. See **Farm Optional Method** on this page for details.

Net nonfarm profits is the total of the amounts from Schedule C (Form 1040), line 31 (or Schedule C-EZ (Form 1040), line 3), Schedule K-1 (Form 1065), line 15a (from other than farm partnerships), and Schedule K-1 (Form 1065-B), box 9.

Using Both Optional Methods

If you can use both methods, you may report less than your total actual net earnings from farm and nonfarm self-employment, but you **cannot** report less than your actual net earnings from nonfarm self-employment alone.

If you use both methods to figure net earnings, you **cannot** report more than $1,600 of net SE earnings.

SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service (99)	**Self-Employment Tax** ? **See Instructions for Schedule SE (Form 1040).** ? **Attach to Form 1040.**	OMB No. 1545-0074 **2001** Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ?	

Who Must File Schedule SE

You must file Schedule SE if:

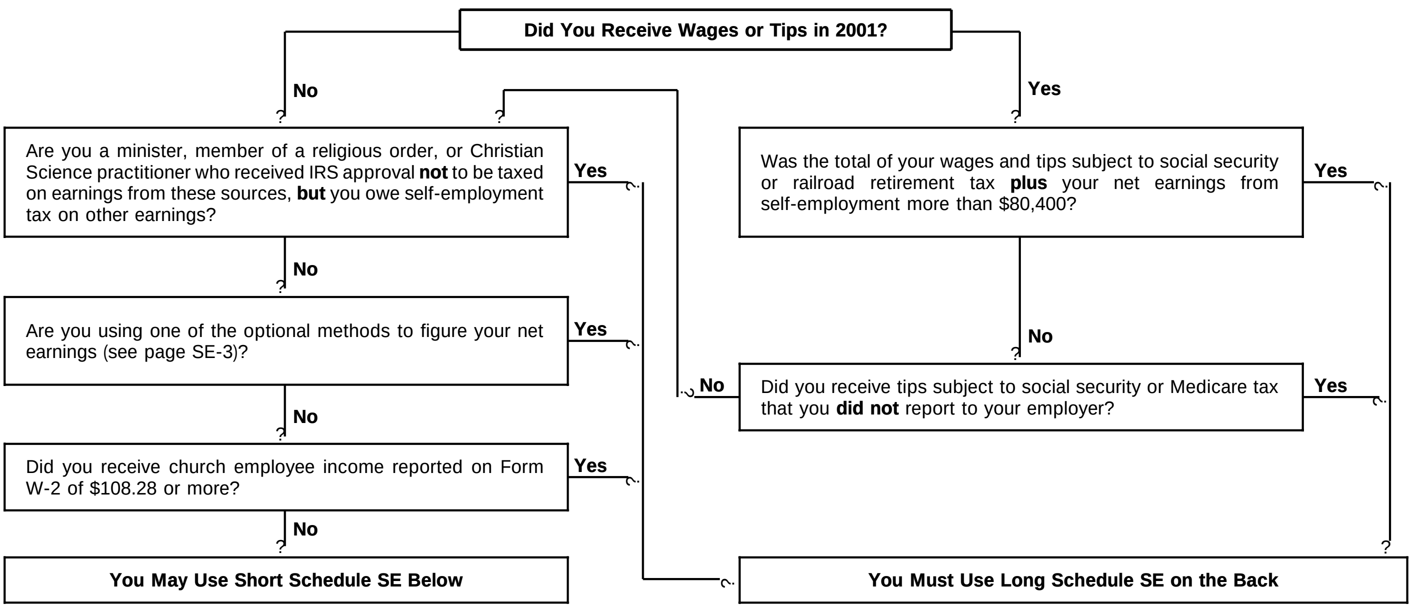
? You had net earnings from self-employment from **other than** church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of $400 or more **or**

? You had church employee income of $108.28 or more. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

Note. Even if you had a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361 and received IRS approval not to be taxed on those earnings, **do not** file Schedule SE. Instead, write "Exempt- Form 4361" on Form 1040, line 53.

May I Use Short Schedule SE or Must I Use Long Schedule SE?



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a	**1**		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report	**2**		
3	Combine lines 1 and 2	**3**		
4	**Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than $400, **do not** file this schedule; you do not owe self-employment tax . . . . ?	**4**		
5	**Self-employment tax.** If the amount on line 4 is: ? $80,400 or less, multiply line 4 by 15.3% (.153). Enter the result here and on **Form 1040, line 53.** ? More than $80,400, multiply line 4 by 2.9% (.029). Then, add $9,969.60 to the result. Enter the total here and on **Form 1040, line 53.** . . .	**5**		
6	**Deduction for one-half of self-employment tax.** Multiply line 5 by 50% (.5). Enter the result here and on **Form 1040, line 27** **6**			

Name of person with **self-employment** income (as shown on Form 1040)	Social security number of person with **self-employment** income ?	

Section B—Long Schedule SE

Part I Self-Employment Tax

Note. If your only income subject to self-employment tax is **church employee income,** skip lines 1 through 4b. Enter -0- on line 4c and go to line 5a. Income from services you performed as a minister or a member of a religious order **is not** church employee income. See page SE-1.

A If you are a minister, member of a religious order, or Christian Science practitioner **and** you filed Form 4361, but you had $400 or more of **other** net earnings from self-employment, check here and continue with Part I . . . . ? ☐

1	Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a. **Note.** Skip this line if you use the farm optional method. See page SE-3 . .			1		
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. Ministers and members of religious orders, see page SE-1 for amounts to report on this line. See page SE-2 for other income to report. **Note.** Skip this line if you use the nonfarm optional method. See page SE-3.			2		
3	Combine lines 1 and 2			3		
4a	If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3			4a		
b	If you elect one or both of the optional methods, enter the total of lines 15 and 17 here . . .			4b		
c	Combine lines 4a and 4b. If less than $400, **do not** file this schedule; you do not owe self-employment tax. **Exception.** If less than $400 and you had **church employee income,** enter -0- and continue ?			4c		
5a	Enter your **church employee income** from Form W-2. **Caution.** See page SE-1 for definition of church employee income	5a				
b	Multiply line 5a by 92.35% (.9235). If less than $100, enter -0-			5b		
6	**Net earnings from self-employment.** Add lines 4c and 5b			6		
7	Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 2001			7	80,400	00
8a	Total social security wages and tips (total of boxes 3 and 7 on Form(s) W-2) and railroad retirement (tier 1) compensation	8a				
b	Unreported tips subject to social security tax (from Form 4137, line 9)	8b				
c	Add lines 8a and 8b			8c		
9	Subtract line 8c from line 7. If zero or less, enter -0- here and on line 10 and go to line 11 . ?			9		
10	Multiply the **smaller** of line 6 or line 9 by 12.4% (.124)			10		
11	Multiply line 6 by 2.9% (.029)			11		
12	**Self-employment tax.** Add lines 10 and 11. Enter here and on **Form 1040, line 53**			12		
13	**Deduction for one-half of self-employment tax.** Multiply line 12 by 50% (.5). Enter the result here and on **Form 1040, line 27**	13				

Part II Optional Methods To Figure Net Earnings (See page SE-3.)

Farm Optional Method. You may use this method **only** if:

? Your gross farm income[1] was not more than $2,400 **or**

? Your net farm profits[2] were less than $1,733.

14	Maximum income for optional methods	14	1,600	00
15	Enter the **smaller** of: two-thirds (2⁄3) of gross farm income[1] (not less than zero) **or** $1,600. Also include this amount on line 4b above	15		

Nonfarm Optional Method. You may use this method **only** if:

? Your net nonfarm profits[3] were less than $1,733 and also less than 72.189% of your gross nonfarm income[4] **and**

? You had net earnings from self-employment of at least $400 in 2 of the prior 3 years.

Caution. You may use this method no more than five times.

16	Subtract line 15 from line 14	16		
17	Enter the **smaller** of: two-thirds (2⁄3) of gross nonfarm income[4] (not less than zero) **or** the amount on line 16. Also include this amount on line 4b above	17		

[1]From Sch. F, line 11, and Sch. K-1 (Form 1065), line 15b.
[2]From Sch. F, line 36, and Sch. K-1 (Form 1065), line 15a.
[3]From Sch. C, line 31; Sch. C-EZ, line 3; Sch. K-1 (Form 1065), line 15a; and Sch. K-1 (Form 1065-B), box 9.
[4]From Sch. C, line 7; Sch. C-EZ, line 1; Sch. K-1 (Form 1065), line 15c; and Sch. K-1 (Form 1065-B), box 9.

Dear Friend,

Thank you for reading and using our Ultimate Tax Reduction System. Everyone should pay his or her fair share of taxes, but no one should pay more than his/her fair share, and that's why we wrote this Guide.

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Scott C. Turner, CPA

Ronald R. Mueller, MBA

Authors

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- ✓ If you had a home-based business in *any of the past three years*, you could qualify for a refund from the IRS. Owners of this system can get Special Rates for review of your past years Tax Returns and for preparing Amended Returns (Form 1040X). Send an email to: amendreturns@financialmattersnetwork.com. and ask for specifics.

- ✓ If you are looking for a tax-preparer who *specializes* in Home-Based Business Tax-Law, send an email to: taxes@financialmattersnetwork.com.

- ✓ If you would like someone to help you with a tax audit, or would like to hear about "audit protection representation," send us an email at auditinfo@financialmattersnetwork.com.

- ✓ If you do not have a home-based business, and you are interested in starting one, please contact the person below to find out more about one of the top home-based businesses in America today.

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Payment Information (for MAIL orders and FAX orders):

☐ **My Check or Money Order is Enclosed for $__________**

☐ **Please charge my Credit Card for $__________________**

Please check one: ☐**MasterCard** ☐**Visa** ☐ **Am Ex** ☐ **Discover**

Card Number: ____________________________________ Exp. Date: ___/___