

Index

• Numerics •

- 90 percent rule, 172–173
- 401(k) plans
 - employees, retaining with, 47
 - overview, 49–50
 - self-employed, contributing to, 33
 - tax credits, 137
 - tax reduction opportunities, 240
- 403(b) plans
 - overview, 50
 - tax reduction opportunities, 240

• A •

- accounting
 - accurate record-keeping, 101, 104
 - business/personal separation, 100
 - cash method, advantages, 143–144
 - cash versus accrual methods, 142–144
 - credit cards, value of, 101
 - documenting records, 101
 - estimated tax payments, 172–175
 - FIFO method, 145
 - HSAs, using Form 8889, 182–184
 - hybrid method, 143
 - income/expense shifting, 103–104
 - income/payroll taxes, estimating and paying, 101–102
 - LIFO method, 145
 - lost records, reconstructing, 107
 - necessity of, 246
 - overview, 99–100
 - payroll services, using, 247
 - receipts, retaining/destroying, 104, 106
 - record-keeping methods, 105–106
 - self-employment tax, 178–181
 - software programs for, 105, 246
 - state requirements, 106–107
 - withholding requirements, 175–177

- adjusted gross income (AGI)
 - calculating, 130
 - definition, 14
 - overview, 122
- advertising expenses, 146
- advisors
 - audit representation, 200, 230
 - audits, triggered by, 215
 - business entity decisions, help with, 27, 246
 - choosing carefully, 95, 215, 230
 - conflicts of interest, warning, 95, 232
 - CPAs, advantages/disadvantages, 228
 - delinquent tax return notices, 194
 - enrolled agents versus attorneys, 227
 - fee structures, 233–234
 - fees, deductions for, 244
 - hiring, when to decide, 225–226
 - income/payroll taxes, using for, 102–103
 - interviewing, 230–235
 - IRS collection, dealing with, 247–248
 - locating, resources for, 230
 - partnering with attorneys, 26–27
 - qualifications, determining, 229, 234
 - references, requesting, 235
 - retirement accounts, getting help with, 46
 - tax attorneys, using, 229
 - Tax Court representation, 201
 - unenrolled preparers, advantages/disadvantages, 226–227
 - value of, 9, 11
- AGI (adjusted gross income)
 - calculating, 130
 - definition, 14
 - overview, 122
- alternative minimum tax (AMT)
 - calculating, 133–134
 - Form 6251, 134
 - overview, 16

- “Amended U.S. Individual Income Tax Return” (Form 1040X), 207–209
 - American Institute of Certified Public Accountants website, 228
 - American opportunity credit, 136
 - AMT (alternative minimum tax)
 - calculating, 133–134
 - Form 6251, 134
 - overview, 16
 - “Annual Return/Report of Employee Benefit Plan” (Form 5500), 48
 - annuities
 - life insurance versus, 92
 - taxes, reporting for, 111, 118
 - tax-sheltered, 50
 - “Application for Tentative Refund” (Form 1045), 209
 - assessment notices, 189–190
 - asset allocation
 - definition, 57
 - guidelines for, 57–58
 - U.S. versus international, 58
 - asset protection
 - corporate veil protections, 23
 - liability insurance issues, 24
 - tax planning for, 8
 - asset reduction
 - asset appreciation, considering, 39
 - generation-skipping transfer tax, 88
 - gift-giving, less than \$14,000/year, 87–88
 - gift-giving, more than \$14,000/year, 89–90
 - incorporating, advantages, 89
 - overview, 87
 - “United States Estate (and Generation-Skipping Transfer) Tax Return” (Form 706), 90
 - unlimited marital deduction, 90–91
 - “At-Risk Limitations” (Form 6198), 156
 - attorneys
 - audit representation, 200
 - business entity decisions, help with, 27, 246
 - conflicts of interest, warning, 95
 - enrolled agents versus, 227
 - incorporation advice, 21
 - leasing, contract advice, 76
 - partnering with tax advisor, 26–27
 - scare tactics, warning about, 84
 - tax advice fees, deductions for, 244
 - tax attorneys, using, 229
 - audits
 - burden of proof, 196
 - correspondence audits, 197
 - deductions, relationship to, 10
 - documents to bring, 200–201
 - field audits, 198–199
 - home offices, increasing risk with, 168–169
 - likelihood, reducing, 211–215
 - office audits, 197–198
 - overview, 195–196
 - preparation for, 199–201
 - random statistical audits, 199
 - red flags, hobby losses, 213
 - red flags, inaccurate returns, 211, 214
 - red flags, itemizing, 212
 - red flags, protests/threats, 213
 - representation rights, 196, 200
 - retirement accounts, issues with, 46
 - self-employment triggers, 213–214
 - sole proprietorship issues, 21
 - statute of limitations, 201
 - strategies for winning, 201
 - tax preparers, choosing carefully, 215
 - author’s website, 53
 - automobile expenses
 - leasing, including amounts, 153–154
 - overview, 147
 - rules for deductions, 148–149
 - standard mileage rate versus actual, 147–148
- **B** ●
- balanced funds. *See* bond funds
 - bartering income, reporting, 121
 - benefits. *See also* health insurance; retirement accounts
 - corporation owners, 25, 38–39
 - perks, advantages of, 32
 - retirement plans, 33
 - S corporation disadvantages, 27

- Beware icon, explained, 3
 billing issues, tax planning concerns, 10
 bond funds
 balanced, recommendations for, 62
 choices, considerations for, 63
 interest, tax treatment of, 115
 intermediate-term, recommendations for, 65
 long-term, recommendation for, 65–66
 overview, 62
 performance assumptions, dangers of, 63
 private activity bonds, 116
 short-term, recommendations for, 64–65
 yields, advertising games, 64
 bootstrapping, 73
 business decisions
 entity choice, effect on taxes, 8, 11, 16–17
 professional tax advisors, using, 9, 11
 business entities
 choice, effects of, 246
 choices available, 19
 estate tax strategies, 89
 income/expense shifting, 103–104
 incorporating, 21–23
 sole proprietorships, 20–21
 business income (or loss), reporting, 117
 business property, sale of, 118
 buying property. *See* real estate
- C •
- cafeteria/flexible spending plans
 corporation owner, advantages for, 38–39
 HSAs versus, 37, 125
 canceled debts, reporting as income, 121
 capital gains (or losses)
 advantages, 239
 reporting, 117
 tax rate increases, 138
 capitalization, 59
 CCH website, 223
 charitable contributions, 243
 charitable lead trusts, 93
 charitable remainder trusts, 94
- “Child and Dependent Care Expenses”
 (Form 2441), 136
 Clifford, Denis, 96
 collection due process hearing, 211
 commission/fee income, reporting, 121
 compounding interest, effects of, 62–66
 consumer debt, managing, 242–243
 continuity of life, 26
 contributions, charitable, 243
 corporate-friendly states, incorporating in,
 26
 corporations. *See also* S corporations
 annual costs, 21
 annual meeting requirements, 23
 asset protection, 23
 C versus S corporations, 21
 continuity of life, advantages, 26
 corporate friendly states, incorporating
 in, 26
 d.b.a. versus, 26
 estate planning, advantages, 26
 incorporating, deciding factors, 21–23
 liability insurance, need for, 24
 liability issues, 23
 LLCs versus, 31
 owners, benefits for, 38–39
 record-keeping requirements, 23
 shareholders, advantages of, 26
 tax rates, 16–17, 25
 taxation issues, 24–25
 “U.S. Corporation Income Tax Return”
 (Form 1120), 20–21
 correspondence audits, 197
 “Credit for Qualified Retirement Savings
 Contributions” (Form 8880), 137
 “Credit for Small Employer Pension Plan
 Startup Costs” (Form 8881), 47
 credits (taxes)
 child and dependent care, 136
 child tax credit, 137
 educational expenses, 136
 foreign taxes paid, 135
 overview, 135
 retirement account contributions, 137
 Crummey trusts, 93

• D •

d.b.a. (“doing business as”), 26
 debt management strategies, 242–243
 deductions. *See also* Form 1040; home offices
 auditing considerations, 10
 career counseling fees, 244
 charitable contributions, 243
 club/organization dues, 38
 dependent care, 37
 educational expenses, 38, 244
 group term life, 37
 health insurance, self-employed, 39
 home office expenses, 10, 73
 income, adjusting with, 12
 incorporating, advantages, 25
 investment fees, 244
 itemized deductions, shifting, 241–242
 job search fees, 244
 legitimate, using, 244
 limitations, 14
 long-term care insurance, 37
 losses, S corporation advantages, 27
 meals for employees, 38
 personal healthcare, 37
 S corporation, disadvantages, 27–28
 standard allowances, 241
 standard versus itemized, 12, 112, 241–242
 tax preparation fees, 244
 travel expenses, 38
 unreimbursed job expenses, 244
 vehicle expenses, 38
 viewpoint adjustment, 9–10
 delinquent tax return notices, 194–195
 dependent care deductions, 37
 depreciation. *See also* home offices
 \$500,000 deduction versus, 151
 overview, 150–152
 recapture, 169
 repairs versus improvements, 154
 “Depreciation and Amortization” (Form 4562), 150

disability insurance, corporation owner benefits, 25
 dividends, 116–117
 Dodge & Cox website, 60
 “doing business as” (d.b.a.), 26
 “Domestic Production Activities Deduction” (Form 8903), 129
 dues (clubs/organizations), deductions for, 38
 durable power of attorney, 88

• E •

early withdrawal penalties (retirement accounts)
 avoiding, 44
 early retirement exceptions, 45
 overview, 44
 EAs (enrolled agents), 227
 “Education Credits (American Opportunity and Lifetime Learning Credits)” (Form 8863), 136–137
 educational expense
 credits (taxes), 136–137
 deduction for, 38, 244
 EIN (employer identification number), 142
 “Election by a Small Business Corporation” (Form 2553), 29
 “Employee Business Expenses” (Form 2106), 150
 employees
 corporation owners, 25
 independent contractors versus, 214
 recruiting and retaining, 8
 sole proprietorships versus corporations, 20–21
 withholding taxes, 155–157
 employer identification number (EIN), 142
 “Employer’s Annual Federal Unemployment (FUTA) Tax Return” (Form 940), 102, 177
 “Employer’s Quarterly Federal Tax Return” (Form 941), 102, 177
 “Employment Eligibility Verification” (Form I-9), 177

- enrolled agents (EAs), 227
- “Entity Classification Election” (Form 8832), 31
- Eric’s Picks icon, explained, 3
- eSmart Tax website (CCH), 222
- estate planning. *See also* estate tax strategies
- corporations, advantages of, 26
 - effect on taxes, 8
 - federal estate tax exemption, 84
 - goals of, 83–84
 - overview, 83
 - scare tactics, warning about, 84
 - small business, special tax treatment, 86
 - sole proprietorships, disadvantages, 21
 - state tax rates, list of, 85–86
 - taxable estate, calculating, 84–85
- estate tax strategies
- advisors, warning about, 87
 - asset reduction, giving gifts, 87, 89–90
 - heirs, planning with, 95
 - life insurance, value of, 91–93
 - probate avoidance, 88, 93–95
 - trusts, 90, 93
 - unlimited marital deduction, 90–91
 - wills, overview, 88
- “Estimated Tax for Individuals” (Form 1040-ES), 9, 102
- estimated tax payments
- Form 1040-ES, using, 9, 102, 172–175
 - retirement income, 172
 - safe harbor method versus 90 percent rule, 172–173
- ETFs (exchange-traded funds)
- accessibility advantages, 53
 - advantages, 51–53
 - cost advantages, 51
 - definition, 51
 - disadvantages, 56–57
 - diversification advantages, 52
 - ETFs versus, 51
 - fund costs, minimizing, 54–55
 - investment minimum policies, 52
 - investment strategy, 61
 - leveraged ETFs, 57
 - management benefits, 52
 - management experience analysis, 54
 - mutual funds versus, 51
 - recommendations for, 62
 - risk analysis, 53–54
 - risk/reward options, 52
 - safety superiority, 52–53
- exchange-traded funds. *See* ETFs
- exemptions
- estate taxes, 85–86
 - federal estate tax exemption, 84, 90
 - personal, limitations to, 14
- expenses
- education costs, deducting, 244
 - \$500,000 deduction versus depreciation, 151
 - investment fees, deducting, 244
 - job search fees, deducting, 244
 - legitimate, using, 244
 - retirement accounts, funding with, 44
 - unreimbursed job expenses, deducting, 244
- “Expenses for Business Use of Your Home” (Form 8829), 156, 159
- **F** ●
- farm income (or loss), reporting, 119
- fee/commission income, reporting, 121
- Fidelity website, 50, 62
- field audits, 198–199
- FIFO method, 145
- flexible spending/cafeteria plans
- corporation owner, advantages for, 38–39
 - employee benefits, 36
 - HSAs versus, 37, 125
- “Foreign Tax Credit” (Form 1116)
- exclusion and housing allowance, 135
 - rules for, 240–241
- Form 1040
- Line 8a: Taxable interest, 115
 - Line 8b: Tax-exempt interest, 116
 - Line 9a: Ordinary dividends, 116
 - Line 9b: Qualified dividends, 116–117
 - Line 12: Business income (or loss), 117
 - Line 13: Capital gain (or loss), 117–118
 - Line 14: Other gains (or losses), 118

Form 1040 (*continued*)

- Lines 16a and 16b: Total pensions and annuities, 118
- Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc., 118–119
- Line 18: Farm income (or loss), 119
- Lines 20a and 20b: Social Security benefits, 120
- Line 21: Other income, 120–122
- Line 23: Educator expenses, 123
- Line 24: Certain business expenses of reservists, performing artists, and fee-basis government officials, 123–124
- Line 26: Moving expenses, 124–125
- Line 27: Deductible part of self-employment tax, 125
- Line 28: Self-employed SEP, SIMPLE, and qualified plans, 125–126
- Line 29: Self-employed health insurance deduction, 126
- Line 32: IRA deduction, 126–127
- Line 33: Student loan interest deduction, 127–128
- Line 34: Tuition and fees, 128–129
- Line 35: Domestic production activities deduction, 129
- Line 37: Adjusted gross income calculation, 130
- Line 40: Itemized deductions (from Schedule A) or your standard deduction, 130–132
- Line 42: Exemptions, 132–133
- Line 45: Alternative minimum tax, 133–134
- Line 47: Foreign tax credit, 135
- Line 48: Credit for child and dependent care expenses, 136
- Line 49: Education credits, 136–137
- Line 50: Retirement savings contributions credit, 137
- Line 51: Child tax credit (nonrefundable), 137
- Line 65: Child tax credit (refundable), 137 overview, 112–113
- W-2 forms, using, 113–115

Form 1040-ES (“Estimated Tax for Individuals”)

- completing and filing, 173–175
 - overview, 9, 102, 172–173
 - forms. *See* IRS forms
 - 401(k) plans
 - employees, retaining with, 47
 - overview, 49–50
 - self-employed, contributing to, 33
 - tax credits, 137
 - tax reduction opportunities, 240
 - 403(b) plans
 - overview, 50
 - tax reduction opportunities, 240
 - fringe benefits. *See* benefits
- **G** ●
- gains (or losses)
 - business property, sale of, 118
 - capital gain, 117
 - other gain, 118
 - generation-skipping transfer tax, 88
 - graduated income tax
 - marginal tax rate, relationship to, 13–14
 - overview, 12
 - tax brackets and rates, 13
 - Griswold, Robert, 82
 - growth stocks, 59

● **H** ●

- Harbor International website, 61
- Health Care and Education Reconciliation Act, 34–35
- health insurance
 - agents versus direct purchase, 35–36
 - attractive attributes, 34
 - corporation owner benefits, 25, 38–39
 - flexible spending/reimbursement account
 - issues, 36
 - healthcare reform legislation (2010),
 - impact of, 34–35
 - HSA advantages, 37

- overview, 33
- self-employed, deductions for, 39
- tax credits, 33
- health savings accounts (HSAs)
 - flexible spending/cafeteria plans versus, 37, 125
 - high-deductible healthcare plans, maintaining, 240
 - overview, 37, 182–183
 - tax reduction opportunities, 240
- “Health Savings Accounts (HSAs)” (Form 8889), 124, 183–184
- healthcare reform legislation (2010), 34–35
- hobby losses, 158
- home offices
 - audit risks, 168–169
 - calculating true cost of, 74–75
 - controlling costs with, 73
 - deductions, calculating, 164–165
 - deductions, carrying over, 167–168
 - deductions, new for 2013, 159–161
 - deductions, simplified versus regular method, 162
 - depreciation allowance, determining, 165–167
 - depreciation recapture, 169
 - expense deductions, 10, 73
 - Form 8829, filling out, 164–167
 - legal issues, 72–73
 - personal issues, 73–74
 - renters versus homeowners, 163
 - tax deductions, 10, 73, 156
- household workers
 - immigration verification, 177
 - withholding rules, 176
- HSAs (health savings accounts)
 - flexible spending/cafeteria plans versus, 37, 125
 - “Health Savings Accounts” (Form 8889), 124, 183–184
 - high-deductible healthcare plans, maintaining, 240
 - overview, 37, 182–183
 - tax reduction opportunities, 240
- 1 •
- icons, explained, 3
- income
 - definition, 113
 - total versus taxable, 12
- income taxes. *See also* Form 1040; IRS forms
 - estimating and paying, 101–102
 - tax advisors, using, 102–103
 - W-2 forms, using, 113–115
- “Income Verification Notice” (Form CP2501), 190
- incorporating
 - continuity of life, 26
 - disadvantages, 20, 23
 - estate planning issues, 89
 - liability issues, 23–24
 - LLCs versus, 31–32
 - location decisions, 26
 - S corporations versus C corporations, 27
 - sole proprietorships versus, 20
 - taxes, effect on, 11, 24–25
- index funds
 - actively managed versus, 55, 58
 - overview, 55
- insurance
 - corporation owner benefits, 25, 38–39
 - expense, including in, 152
 - group term life, deductions for, 37
 - health, deductions for, 33–36
 - life insurance, overview, 91
 - professional tax advisors, carried by, 234–235
 - scare tactics, warning about, 84
- interest
 - charged on additional tax due, 194
 - tax treatment of, 115
- Internal Revenue Service. *See* IRS
- international stock funds
 - allocation suggestions, 58
 - diversification, importance of, 60
 - global/worldwide versus, 60
 - recommendations for diversified, 61
 - recommendations for limited, 60

- Internet. *See* online resources; websites
- intestate issues, 88
- Investigate icon, explained, 3
- investigatory expenses, 157
- investment returns
- bond expectations, 66–67
 - compounding, effects of, 68–69
 - deductible fees, 244
 - real estate expectations, 68
 - real estate, wealth-building, 239
 - retirement accounts, funding, 240
 - stock expectations, 67–68
- IRS (Internal Revenue Service). *See also* IRS forms
- assessment notices, overview, 189–190
 - backup withholding notice, 191–192
 - collection, dealing with, 247–248
 - collection due process hearing, 211
 - contact information, 102
 - correspondence, reminders about, 193, 204–205
 - delinquent tax return notices, 194–195
 - errors, types of, 202–203
 - income verification notices, 190
 - levy powers, 210–211
 - liens, filing and removing, 192–193
 - non-assessment notices, 193–195
 - notices, ignoring, 190
 - notices, overview, 188–190
 - payment options, 209–210
 - request for tax return notices, 191
 - tax returns, assistance with, 219–220
 - taxpayer advocates, 192, 205–207
 - transcripts, requesting, 189
 - underpayment/overpayment notices, 190
 - website, help from, 221
- IRS forms
- 668(F) (“Notice of Lien”), 192
 - 706 (“United States Estate (and Generation-Skipping Transfer) Tax Return”), 90
 - 940 (“Employer’s Annual Federal Unemployment (FUTA) Tax Return”), 102, 177
 - 941 (“Employer’s Quarterly Federal Tax Return”), 102, 177
 - 1040 (long form), 112–113
 - 1040 (Schedule A), 37
 - 1040 (Schedule E), 29
 - 1040A, 111
 - 1040-ES (“Estimated Tax for Individuals”), 9, 102, 172–175
 - 1040EZ, 110
 - 1040X (“Amended U.S. Individual Income Tax Return”), 207–209
 - 1045 (“Application for Tentative Refund”), 209
 - 1065 (“IRS Schedule K-1”), 31
 - 1065 (“U.S. Return of Partnership Income”), 30
 - 1099-B, 121
 - 1099-DIV, 111, 116–117
 - 1099-G, 119
 - 1099-INT, 115–116
 - 1099-MISC, 102, 177
 - 1099-OID, 115
 - 1116 (“Foreign Tax Credit”), 135, 240
 - 1120 (“U.S. Corporation Income Tax Return”), 21
 - 1120S (“U.S. Income Tax Return for an S Corporation”), 27
 - 2106 (“Employee Business Expenses”), 124, 150
 - 2106-EZ, 124
 - 2441 (“Child and Dependent Care Expenses”), 136
 - 2553 (“Election by a Small Business Corporation”), 29
 - 3903 (“Moving Expenses”), 125
 - 4562 (“Depreciation and Amortization”), 150
 - 4797 (“Sales of Business Property”), 118
 - 5500 (“Annual Return/Report of Employee Benefit Plan”), 48
 - 6198 (“At-Risk Limitations”), 156
 - 6251 (“Alternative Minimum Tax — Individuals”), 2, 16, 134
 - 8606, 127
 - 8829 (“Expenses for Business Use of Your Home”), 156, 159
 - 8832 (“Entity Classification Elections”), 31
 - 8863 (“Education Credits (American Opportunity and Lifetime Learning Credits)”), 136–137
 - 8880 (“Credit for Qualified Retirement Savings Contributions”), 137

8881 (“Credit for Small Employer Pension Plan Startup Costs”), 47
 8889 (“Health Savings Accounts”), 124, 183–184
 8903 (“Domestic Production Activities Deduction”), 129
 CP515 (“Request for Your Tax Return”), 191
 CP518 (“You Didn’t Respond Regarding Your Tax Return”), 191
 CP2000 (“Notice of Proposed Adjustment for Underpayment/Overpayment”), 190
 CP2501 (“Income Verification Notice”), 190
 I-9 (“Employment Eligibility Verification”), 177
 online resources, 4
 Schedule 1, 115–117
 Schedule A, 90, 94, 112–113
 Schedule B, 115–117
 Schedule C, 100, 117
 Schedule C-EZ, 117
 Schedule D, 117
 Schedule E (“Supplemental Income and Loss”), 118–119
 Schedule F (“Profit or Loss from Farming”), 115, 119
 Schedule H, 176
 Schedule SE (“Self-Employment Tax”), 121, 178–181
 SSA-1099, 120
 W-2, 113–115, 177
 W-4, 175–177
 IRS website, 221

• **K** •

Keogh plans
 “Annual Return/Report of Employee Benefit Plan” (Form 5500), filing, 48
 employees, retaining with, 47–48
 self-employed, contributing to, 33
 SEP-IRAs/SIMPLE plans versus, 48–49
 Social Security integration, advantages, 49
 tax advantages, 126
 tax reduction opportunities, 240

• **L** •

lawyers. *See* attorneys
 leases
 advantages, 75
 contract advice, 76
 definition, 75
 disadvantages, 75–76
 financial statements, requiring, 81
 lease abstract, obtaining, 81
 lease estoppel, obtaining, 81
 negotiation tactics, 76–77
 recent sales info, reviewing, 82
 remodeling costs, 77
 renewal options, 77
 triple-net contract concerns, 76–77
 vehicles, 153–154
 legal counsel
 audit representation, 200
 business entity decisions, help with, 27, 246
 conflicts of interest, warning, 95
 enrolled agents versus, 227
 incorporation advice, 21
 leasing, contract advice, 76
 partnering with tax advisor, 26–27
 scare tactics, warning about, 84
 tax advice fees, deductions for, 244
 tax attorneys, using, 229
 levy powers, 210–211
 liability exposure
 incorporating, advantages, 23
 investigating, 24
 liability insurance, need for, 24
 sole proprietorships, drawbacks, 20
 liability insurance
 need for, 23–24
 tax professionals, requiring of, 234–235
 liens
 IRS rights, 192
 releasing, 193
 life insurance
 agent conflicts of interest, 91–92, 95
 corporation owner benefits, 25
 group term, deductions for, 37
 retirement accounts versus, 92–93
 term versus cash-value, 91
 viatical settlements, reporting, 122

lifetime learning credit, 137
 LIFO method, 145
 Litman Gregory Masters International website, 61
 living wills, 88
 LLCs
 advantages, 31
 California fee/tax issues, 32
 Form 8832 elections (filing as a corporation), 31
 partners, requirements for, 31
 S corporations versus, 29, 31
 single-owner tax forms, 31
 long-term care (LTC) insurance, 37

• M •

marginal tax rate
 definition, 12
 graduated income tax, relationship to, 13–14
 state taxes, including, 14–15
 tax planning, effect on, 13–14
 meals for employees, deductions for, 38
 medical power of attorney, 88
 Medicare, self-employment tax, 125
 mortgage refinancing, 242–243
 “Moving Expenses” (Form 3903), 124–125
 municipal bonds
 interest, tax treatment of, 115–116
 tax advantages, 12
 mutual funds
 accessibility advantages, 53
 cost advantages, 51
 definition, 51
 diversification advantages, 52
 ETFs versus, 51
 fund costs, minimizing, 54–55
 investment minimum policies, 52
 management benefits, 52
 management experience analysis, 54
 risk/reward options, 52
 safety superiority, 52–53

• N •

nanny tax, withholding rules, 176
 net operating loss (NOL)
 carrying forward versus backward, 208–209
 refunds, obtaining with, 157–158
 90 percent rule, 172–173
 Nolo Press, 95
 non-assessment notices, 193–195
 nonrecourse loans, 121
 “Notice of Lien” (Form 668(F)), 192
 “Notice of Proposed Adjustment for Underpayment/Overpayment” (Form CP2000), 190

• O •

Oakmark International and Global website, 61
 office audits, 197–198
 online resources. *See also* websites
 balanced funds, 62
 bond funds, 65–66
 CPA listings, 228
 ETFs, 62
 403(b) plan managers, 50
 IRS, 221
 international stock funds, 60–61
 state tax forms, 14, 221–222
 tax forms, 2, 4
 tax preparation sites, 222
 tax preparation software, 248
 tax research sites, 222–223
 U.S. stock funds, 60
 will preparation, 95
 ordinary dividends, reporting, 116
 overseas work
 exclusion and housing allowance, 135
 tax credits, rules for, 240–241

• p •

- partnerships
 - definition, 29
 - GPs versus LPs, 29
 - “IRS Schedule K-1” (Form 1065), filing requirements, 31
 - LLCs, requirements for, 31
 - “Supplemental Income and Loss” (Form 1040 Schedule E), 29
 - “U.S. Return of Partnership Income” (Form 1065), 30
- Patient Protection and Affordable Care Act, 34–35
- payable-on-death (POD) accounts, 93
- payroll services
 - advantages, 247
 - cost-effective, 102–103
 - EAs, using for, 227
 - finding and hiring, 175
 - IRS collection, dealing with, 247–248
 - shopping for, 247
- payroll taxes
 - “Employer’s Annual Federal Unemployment (FUTA) Tax Return” (Form 940), 102, 177
 - “Employer’s Quarterly Federal Tax Return” (Form 941), 102
 - “Estimated Tax for Individuals” (Form 1040-ES), 102
 - estimating and paying, 101–102
 - tax advisors, using, 102–103
- pensions, reporting, 111, 118
- perks. *See also* health insurance;
retirement accounts
 - advantages of, 32
 - corporation owners, 25, 38–39
 - retirement plans, 33
- S corporation disadvantages, 27
- personal finances, optimizing, 245–246
- planning. *See also* estate planning;
individual retirement account types
 - advice-seeking, timing of, 9
 - asset protection, 8
 - business decisions, relationship to, 8
 - business entity, choice of, 8
 - corporate tax rates, 16–17
 - debt management strategies, 242–243
 - goals of, 2
 - home office expenses, 10
 - income/expense shifting, 103–104
 - itemized deductions, shifting, 241–242
 - marginal tax rate, considering, 13–14
 - overview, 7
 - professionals, value of, 9, 11
 - quarterly payments, 9
 - real estate, investing in, 239
 - refunds, disadvantages of, 11
 - retirement accounts: mistaken beliefs, 10
 - retirement accounts, using, 8, 42–43
 - spending decisions, 8
 - timing issues, billing, 10
 - tracking money flow, 9
 - value of, 7–8
 - viewpoint adjustment, 7
 - withholding choices, 9
- POD (payable-on-death) accounts, 93
- power of attorney, 88
- private activity bonds, 116
- prizes and awards, reporting, 122
- probate
 - definition, 88
 - living trusts, avoiding with, 93–95
 - overview, 94
 - Totten trusts, avoiding with, 93
- professional associations
 - benefits of belonging, 24
 - finding tax advisors, 230
- professional tax advisors. *See also*
attorneys
 - audit representation, 200, 230
 - audits, triggered by, 215
 - business entity decisions, help with, 27, 246
 - choosing carefully, 95, 215, 230
 - conflicts of interest, warning, 95, 232
 - CPAs, advantages/disadvantages, 228
 - delinquent tax return notices, 194
 - enrolled agents versus attorneys, 227
 - fee structures, 233–234
 - fees, deductions for, 244

professional tax advisors (*continued*)

- hiring, when to decide, 225–226
- income/payroll taxes, using for, 102–103
- interviewing, 230–235
- IRS collection, dealing with, 247–248
- locating, resources for, 230
- partnering with attorneys, 26–27
- qualifications, determining, 229, 234
- references, requesting, 235
- retirement accounts, getting help with, 46
- tax attorneys, using, 229
- Tax Court representation, 201
- unenrolled preparers, advantages/
disadvantages, 226–227
- value of, 9, 11
- “Profit or Loss from Farming” (Schedule F),
119
- property. *See* real estate
- prospectus, definition, 54

• Q •

- qualified dividends, reporting, 116–117
- quarterly taxes
 - estimated tax payments, 175
 - Form 1040-ES, completing and filing,
172–175
 - household workers, 176
 - overview, 172

• R •

- random statistical audits, 199
- real estate
 - business property, sale of, 118
 - buying, evaluating existing leases, 79–82
 - buying, financial analysis, 78
 - buy-versus-rent analysis, 78–79
 - deductions, limitations, 14
 - home offices, calculating true cost of,
74–75
 - home offices, legal issues, 72–73
 - home offices, minimizing expenses
with, 73
 - home offices, personal issues, 73–74

- home offices, tax considerations, 10,
73, 156
- lease abstract, obtaining, 81
- leasing, advantages, 75
- leasing, definition, 75
- leasing, disadvantages, 75–76
- leasing, negotiation tactics, 76–77
- leasing, remodeling costs, 77
- leasing, renewal options, 77
- leasing, triple-net contract concerns,
76–77
- value of ownership, 10
- wealth-building, 239
- refunds (taxes)
 - assessments, reducing with, 189, 193
 - disadvantages of, 11
 - estimated tax payments, 174
 - NOLs, receiving from, 157, 208
 - promises of, 215
 - taxpayer advocates, getting help for, 206
- Remember icon, explained, 3
- rental income, reporting, 118–119
- “Request for Your Tax Return” (Form
CP515), 191
- retirement accounts. *See also* investment
returns
 - asset allocation, 57–58
 - audits, issues with, 46
 - balanced funds, benefits, 62
 - benefits of belonging, 240
 - bond funds, 62–66
 - compounding interest, effects of, 62–66
 - definition, 51
 - early withdrawal penalties, 44–45
 - effect on taxes, 8
 - employers, maximizing value for, 47
 - ETFs, disadvantages of, 56–57
 - index funds, 55
 - interest, tax treatment of, 115
 - life insurance versus, 92–93
 - limitations, 14
 - mistaken beliefs, 10
 - mutual funds, 51–55
 - nondiscrimination testing, avoiding, 49
 - overview, 33, 41–42
 - professional advice, obtaining, 46

- risk analysis, 53–54
 - savings needs, calculating, 45–46
 - self-employed, options for, 46–47
 - sole proprietorships, advantages, 20
 - stock funds, 59–61
 - tax breaks, on earnings, 42–43
 - tax breaks, upfront, 42, 240
 - tax treatment of, 118
 - vesting, definition, 48
 - retirement income, estimated tax payments, 172
 - Roth IRAs
 - limitations, 14
 - tax credits, 137
 - royalties, reporting, 118–119
- S •**
- S corporations. *See also* corporations
 - benefits, disadvantages, 27
 - C corporations, converting from, 29
 - C corporations, converting to, 27
 - LLCs versus, 29, 31
 - overview, 27
 - payroll versus dividends (for owners), 28
 - requirements for, 29
 - Schedule E, reporting on, 118–119
 - tax advantages, 27–28
 - safe harbor method, 172–173
 - sale of business property, 118
 - sales load, definition, 55
 - “Sales of Business Property” (Form 4797), 118
 - savings incentive match plans for
 - employees (SIMPLE) plans
 - early withdrawal penalties, 44
 - employees, retaining with, 47
 - matching, requirements for, 49
 - overview, 49
 - self-employed, contributing to, 33
 - tax reduction opportunities, 240
 - Schedule A (Form 1040), 37
 - Schedule C
 - accounting method choices, 142
 - auditing issues, 100
 - Line 1: Gross receipts or sales, 144
 - Line 2: Returns and allowances, 144
 - Line 4: Cost of goods sold, 145–146
 - Line 6: Other income, 146
 - Line 8: Advertising, 146
 - Line 9: Car and truck expenses, 146–149
 - Line 10: Commissions and fees, 149
 - Line 11: Contract labor, 149–150
 - Line 12: Depletion, 150
 - Line 13: Depreciation, 150–152
 - Line 14: Employee benefit programs, 152
 - Line 15: Insurance, 152
 - Line 16a: Mortgage interest, 152
 - Line 16b: Other interest, 152
 - Line 17: Legal and professional services, 153
 - Line 18: Office expense, 153
 - Line 19: Pension and profit-sharing plans, 153
 - Lines 20a and 20b: Rent or lease, 153–154
 - Line 21: Repairs and maintenance, 154
 - Line 22: Supplies, 154
 - Line 23: Taxes and licenses, 155
 - Lines 24a and 24b: Travel, meals, and entertainment, 155
 - Line 25: Utilities, 155
 - Line 26: Wages, 155
 - Line 27: Other expenses, 155
 - Line 30: Form 8829, 156
 - Lines 32a and 32b: At-risk rules, 156–159
 - material participation, determining, 144
 - overview, 117, 139
 - Schedule C-EZ, 139–140
 - Schedule E, 29
 - Schedule F (“Profit or Loss from Farming”), 119
 - Schedule H, 176
 - Schedule K-1 (“U.S. Return of Partnership Income”), 31
 - Schedule SE (“Self-Employment Tax”), 121, 178–181
 - Schell, Jim, 245
 - self-employment
 - audit issues, 46, 213–214
 - EIN, obtaining, 142
 - estimated tax payments, 172–175
 - expenses/deductions, using, 244

- self-employment (*continued*)
 - health insurance deductions, 39, 126
 - Keogh plan advantages, 49
 - moving expense deductions, 124–125
 - retirement accounts, 33, 125–126, 183
 - self-employment tax, 117, 125, 178–181
 - tax advisors, finding/using, 228, 230
 - vehicle expense deductions, 146–149
 - withholding taxes, 9, 175–177
- “Self-Employment Tax” (Schedule SE), 121, 178–181
- SEP-IRA (simplified employee pension individual retirement account) plans
 - early withdrawal penalties, 44
 - overview, 48
 - self-employed, contributing to, 33
 - tax benefits, 125–126
 - tax reduction opportunities, 240
- Sequoia website, 60
- shareholders
 - corporations, advantages of, 26
 - dividend compensation, 28
 - LLCs versus S corporations, 31
 - S corporation requirements, 29
 - S corporations versus C corporations, 27
- shifting deductions, 241–242
- SIMPLE (savings incentive match plans for employees) plans
 - early withdrawal penalties, 44
 - employees, retaining with, 47
 - matching, requirements for, 49
 - overview, 49
 - self-employed, contributing to, 33
 - tax advantages, 125–126
 - tax reduction opportunities, 240
- simplified employee pension individual retirement account (SEP-IRA) plans
 - advantages, 48
 - early withdrawal penalties, 44
 - overview, 48
 - self-employed, contributing to, 33
 - tax reduction opportunities, 240
- Social Security
 - Form SSA-1099, reporting income from, 120
 - retirement accounts, integration with, 49
 - self-employment tax, 125
 - taxable benefits, calculating, 120
 - taxes, sole proprietorship spousal issues, 20–21
 - tax-exempt interest, relationship to, 116
- sole proprietorships
 - advantages, 20
 - audit risks, 21
 - disadvantages, 20–21
 - estate issues, 21
 - popularity of, 20
 - spousal partnership issues, 20–21
- spending decisions, effect on taxes, 8
- start-up expenses, 73, 157
- state taxes
 - estate taxes, 85–87, 91
 - itemized deductions, including in, 132, 241–242
 - nanny tax rules, 176
 - online resources, 14, 221–222
 - overview, 14–15
 - records, retention requirements, 106–107
 - retirement accounts, 46–50
 - S corporation requirements, 27
 - withholding requirements, 102, 175, 177
- statutory liens, 192
- stock funds
 - classifications of, 59
 - diversification advantages, 59–60
 - global/worldwide versus international, 60
 - international stock fund recommendations, 60–61
 - U.S. stock fund recommendations, 60
- strategies. *See* estate tax strategies; planning
- students
 - student loan interest deduction, 127–128
 - tuition and fees deduction, 128–129
- Subchapter S corporations. *See* S corporations
- “Supplemental Income and Loss” (Schedule E)
 - overview, 1–2, 118–119
 - partnership income, reporting, 29

• T •

- T. Rowe Price website, 50, 60
- tax advisors. *See also* attorneys
- audit representation, 200, 230
 - audits, triggered by, 215
 - business entity decisions, help with, 27, 246
 - choosing carefully, 95, 215, 230
 - conflicts of interest, warning, 95, 232
 - CPAs, advantages/disadvantages, 228
 - delinquent tax return notices, 194
 - enrolled agents versus attorneys, 227
 - fee structures, 233–234
 - fees, deductions for, 244
 - hiring, when to decide, 225–226
 - income/payroll taxes, using for, 102–103
 - interviewing, 230–235
 - IRS collection, dealing with, 247–248
 - locating, resources for, 230
 - partnering with attorneys, 26–27
 - qualifications, determining, 229, 234
 - references, requesting, 235
 - retirement accounts, getting help with, 46
 - tax attorneys, using, 229
 - Tax Court representation, 201
 - unenrolled preparers, advantages/disadvantages, 226–227
 - value of, 9, 11
- tax credits
- child and dependent care, 136
 - child tax credit, 137
 - educational expenses, 136
 - foreign taxes paid, 135
 - overview, 135
 - retirement account contributions, 137
- tax forms. *See* IRS forms
- tax planning. *See* estate tax strategies; planning
- tax returns. *See also* audits; IRS forms
- filing versus paying, 210
 - IRS assistance with, 219–220
 - payment options, 209–210
 - preparing early, 226
 - self-preparation, benefits of, 218–219
 - self-preparation, software choices, 220–221
- taxes. *See also* estate tax strategies; IRS; planning
- auditing fears, 10
 - business expense, proportion of, 1
 - code, learning, 247
 - common mistakes, 9–11
 - corporate profits versus owner dividends, 25
 - deductions, viewpoint of, 9–10
 - delinquent tax return notices, 194–195
 - forms, current, 2
 - graduated income tax, overview, 13–14
 - health insurance credits, 33
 - marginal tax rates, 12–15
 - minimizing by planning, 8
 - online resources, 2, 4
 - overseas work, 240–241
 - payment options, 209–210
 - professional versus personal preparation, 11, 218–219
 - quarterly payments, 9
 - real estate ownership, advantages of, 10, 239
 - records, retention requirements, 106–107
 - reduction strategies, 239–244
 - refunds, disadvantages of, 11
 - returns, amending, 207–209
 - sole proprietorships, advantages, 20
 - state taxes, 14–15
 - total versus taxable income, 12
 - withholding choices, 9
 - withholding requirements, 175, 177
- taxpayer advocates
- contacting, 207
 - overview, 205–206
 - qualifying for, 206
- tax-sheltered annuities, 50
- TaxTopics website, 222
- Technical Stuff icon, explained, 3
- Tip icon, explained, 3
- Totten trusts, 93
- travel expenses
- deductions for, 38, 154
 - overseas work, tax laws governing, 240–241

trusts

- charitable, 94
- cost disadvantages, 94
- Crummey, 90
- definition, 93
- living, 93–94
- Totten, 93

TurboTax website, 248

• U •

unemployment compensation, reporting, 119

“United States Estate (and Generation-Skipping Transfer) Tax Return” (Form 706), 90

unlimited marital deduction, 90–91

“U.S. Corporation Income Tax Return” (Form 1120), 21

“U.S. Income Tax Return for an S Corporation” (Form 1120S), 27

“U.S. Return of Partnership Income” (Form 1065), 30

U.S. Tax Code On-Line website, 222

• V •

value stocks, 59

Vanguard website, 50, 60

vehicle expense deductions

commuting expenses, 143–149

overview, 38, 146–147

standard mileage rate versus actual, 147–148

vesting, 48

viatical settlements, reporting, 122

• W •

W-2 Forms, 113–115, 177

W-4 Forms, 175–177

Warning! icon, explained, 3

websites. *See also* online resources

American Institute of Certified Public Accountants, 228

author’s, 53

CCH, 223

Dodge & Cox, 60

eSmart Tax (CCH), 222

Fidelity, 50, 62

Harbor International, 61

IRS, 221

Litman Gregory Masters International, 61

Oakmark International and Global, 61

Sequoia, 60

T. Rowe Price, 50, 60

TaxTopics, 222

TurboTax, 248

U.S. Tax Code On-Line, 222

Vanguard, 50, 60

Willmaker Plus (Nolo Press), 95

WisdomTree, 62

Willmaker Plus (Nolo Press) website, 95

wills

overview, 88

software programs for, 95

WisdomTree website, 62

withholding choices

annual filing, 102, 177

quarterly payments, 9

withholding taxes

backup withholding, 191–192

employees, filing for, 177

Form W-4, using, 175–177

household workers, 176

W-4 calculator, 177

• Y •

“You Didn’t Respond Regarding Your Tax Return” (Form CP518), 191

• Z •

zero coupon bonds, 115