

Contents at a Glance

<i>Introduction</i>	1
<i>Part I: Tax Basics</i>	5
Chapter 1: Small Business Taxes 101	7
Chapter 2: Making Important Business Decisions	19
Chapter 3: Retirement Accounts and Investments for Small Businesses	41
Chapter 4: Real Estate and Your Small Business	71
Chapter 5: Estate Planning	83
<i>Part II: Ongoing Tax Jobs</i>	97
Chapter 6: Keeping Track of Your Small Business Revenues and Costs	99
Chapter 7: Form 1040 Filing Options	109
Chapter 8: Schedules C and C-EZ	139
Chapter 9: The Business Use of Your Home	159
Chapter 10: Estimated Taxes, Self-Employment Taxes, and Other Common Forms	171
<i>Part III: Getting Help</i>	185
Chapter 11: Dealing with Notices and Audits	187
Chapter 12: Keeping Up with and Researching Tax Strategies and Rules	217
Chapter 13: Paying for Tax Help	225
<i>Part IV: The Part of Tens</i>	237
Chapter 14: (Almost) Ten Often Overlooked Tax Reduction Opportunities	239
Chapter 15: Ten Resources to Turn to After Reading This Book	245
<i>Index</i>	249

<http://www.pbookshop.com>

Table of Contents

<i>Introduction</i>	1
About This Book	1
Foolish Assumptions	2
Icons Used in This Book	3
Beyond the Book	4
Where to Go from Here	4
<i>Part 1: Tax Basics</i>	5
Chapter 1: Small Business Taxes 101	7
Valuing Year-Round Tax Planning	7
Factoring taxes into small business decisions	8
Checking out common tax mistakes	9
Understanding the Different Types of Taxes You Pay and Your Tax Rates	11
Defining total taxes and taxable income	12
Your marginal income tax rate for federal income taxes	12
State income taxes	14
Corporate income tax rates	16
Chapter 2: Making Important Business Decisions	19
Choosing Your Business Entity	19
Sole proprietorships	20
The incorporation decision	21
One step further: S corporations	27
Partnerships	29
Limited liability companies (LLCs)	31
Valuing Employee Benefits	32
Retirement plans	33
Health insurance plans	33
Other benefits	37
Benefits that are deductible for corporation owners	38



**Chapter 3: Retirement Accounts and Investments
for Small Businesses 41**

Beginning with Retirement Account Basics: Tax Breaks,
Penalties, and Saving Guidelines 41

- Instant rewards: Upfront tax breaks 42
- Ongoing tax breaks on your investment earnings 42
- Additional tax credits for lower-income earners 43
- Retirement account penalties for early withdrawals 44
- Guidelines for saving (but not excessively) 45

Surveying Your Retirement Account Options 46

- Maximizing your retirement plan's value 47
- Checking out your choices 47

Selecting Top-Notch Investments for Your Retirement Account 51

- Considering fund advantages 51
- Maximizing your chances for fund investing success 53
- Understanding and using index funds 55
- Considering exchange-traded funds 56
- Using asset allocation in your retirement fund portfolio 57
- Selecting the best stock funds 59
- Investing in the best exchange traded funds 61
- Balancing your act: Funds that combine stocks and bonds 62
- Finding the best bond funds 62

Developing Realistic Investment Return Expectations 66

- Estimating your investments' likely future returns 66
- Compounding your returns 68

Chapter 4: Real Estate and Your Small Business 71

Deciding Whether to Work out of Your Home 71

- Researching local ordinances and issues 72
- Considering controlling costs 73
- Separating your work life from your personal life 73
- Doing a cost comparison 74

Leasing Space for Your Business 75

- Leaning toward leasing 75
- Leasing burdens of retail businesses 75
- Negotiating a lease 76

Buying Business Property 77

- Taking stock of your financial situation 77
- Doing a rent-versus-buy analysis 78
- Evaluating leases as a real estate investor 79

Chapter 5: Estate Planning 83

- Determining Your Estate’s Tax Concerns 83
 - Understanding the federal estate tax exemption 84
 - Figuring out your taxable estate 84
 - Examining estate tax rates..... 85
 - Surveying special estate tax treatment afforded
 - small businesses 86
- Reducing Expected Estate Taxes with a Few Strategies..... 87
 - Giving away your assets..... 87
 - Leaving all your assets to your spouse..... 90
 - Buying cash-value life insurance..... 91
 - Setting up trusts..... 93
 - Getting advice and help 94

Part 11: Ongoing Tax Jobs 97

Chapter 6: Keeping Track of Your Small Business Revenues and Costs. 99

- Establishing an Accounting System for Your Business 99
 - Separating business from personal finances..... 100
 - Documenting expenses and income in the event of an audit 101
 - Keeping current on income and payroll taxes 101
 - Reducing your taxes by legally shifting income and expenses.... 103
- Keeping Good Tax Records for Your Small Business 104
 - Ensuring a complete and accurate tax return..... 104
 - Setting up a record-keeping system 105
 - Deciding when to stash and when to trash 106
 - Watching out for state differences 106
 - Replacing lost business records 107

Chapter 7: Form 1040 Filing Options 109

- What Version of Form 1040 Should You Use?..... 109
 - Form 1040EZ 110
 - Form 1040A (the short form)..... 111
 - Form 1040 (the long form)..... 112
- Income Lines 113
 - Line 7: Wages, salaries, tips, etc. 113
 - Line 8a: Taxable interest..... 115
 - Line 8b: Tax-exempt interest..... 116
 - Lines 9a and 9b: Ordinary dividends and qualified dividends..... 116
 - Line 12: Business income (or loss)..... 117
 - Line 13: Capital gain (or loss)..... 117
 - Line 14: Other gains (or losses) 118

Lines 16a and 16b: Total pensions and annuities.....	118
Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc.....	118
Line 18: Farm income (or loss).....	119
Line 19: Unemployment compensation.....	119
Lines 20a and 20b: Social Security benefits.....	120
Line 21: Other income	120
Adjustments to Income.....	122
Line 23: Educator expenses.....	123
Line 24: Certain business expenses of reservists, performing artists, and fee-basis government officials	123
Line 25: Health savings account deduction.....	124
Line 26: Moving expenses	124
Line 27: Deductible part of self-employment tax.....	125
Line 28: Self-employed SEP, SIMPLE, and qualified plans.....	125
Line 29: Self-employed health insurance deduction.....	126
Line 32: IRA deduction	126
Line 33: Student loan interest deduction.....	127
Line 34: Tuition and fees.....	128
Line 35: Domestic production activities deduction	129
Line 37: Adjusted gross income.....	130
Tax and Credits: Lines 38 to 46.....	130
Line 40: Itemized deductions (from Schedule A) or your standard deduction.....	130
Line 42: Exemptions.....	132
Line 45: Alternative minimum tax.....	133
Tax and Credits: Lines 47 to 55.....	135
Line 47: Foreign tax credit	135
Line 48: Credit for child and dependent care expenses	136
Line 49: Education credits	136
Line 50: Retirement savings contributions credit	137
Line 51: Child tax credit	137
Chapter 8: Schedules C and C-EZ	139
Schedule C-EZ.....	139
Schedule C	140
Basic information.....	142
Part I: Income	144
Part II: Expenses.....	146
Chapter 9: The Business Use of Your Home	159
The New, Simplified Home Office Deduction	159
Filling Out Form 8829, “Expenses for Business Use of Your Home”	162
Recognizing who can use Form 8829.....	163
Measuring the part of your home used for business	164

Figuring your allowable home office deduction 164
 Determining your home office’s depreciation allowance 165
 Carrying over what’s left..... 167
 Understanding the Downsides to Home Office Deductions..... 168
 Audit risk and rejection of repeated business losses 168
 Depreciation recapture when selling a home with previous
 home office deductions 169

**Chapter 10: Estimated Taxes, Self-Employment Taxes,
 and Other Common Forms 171**

Form 1040-ES: Estimated Tax for Individuals..... 172
 Comparing the safe harbor method to the 90 percent rule 172
 Completing and filing your Form 1040-ES 173
 Keeping Current on Your Employees’ (and Your Own)
 Tax Withholding..... 175
 Form W-4 for employee withholding 175
 Tax withholding and filings for employees..... 177
 Schedule SE: Self-Employment Tax 178
 Choosing a version of Schedule SE. Short or long? 180
 Completing the Short Schedule SE 181
 Form 8889: Health Savings Accounts (HSAs)..... 182
 Understanding how HSAs work and who can use them 182
 Completing Form 8889 183

Part III: Getting Help 185

Chapter 11: Dealing with Notices and Audits 187

Understanding the Basics You’ll Find on an IRS Notice 188
 Assessing Assessment Notices 189
 Income verification and proposed changes to your tax
 return: Forms CP2501 and CP2000..... 190
 Request for your tax return: Forms CP515 and CP518..... 191
 Backup withholding notice..... 191
 Federal tax lien notice: Form 668(F)..... 192
 Handling Non-Assessment Notices..... 193
 Paying interest on additional tax..... 194
 Receiving a delinquent tax return notice..... 194
 What You Should Know about Audits..... 195
 Surviving the four types of audits..... 196
 Prepping for an audit..... 199
 Winning your audit 201
 Understanding the statute of limitations on audits..... 202

Correcting IRS Errors	202
Keeping your correspondence short and sweet.....	204
Sending a simple response to a balance due notice	205
Getting attention when the IRS ignores you with the help of a taxpayer advocate	205
Amending a Return.....	207
More expenses than income (net operating losses)	208
The tax benefit rule.....	209
Taking Action Even When You Can't Pay Your Taxes	209
Reducing Your Chances of Being Audited.....	211
Declare all your income	211
Don't itemize.....	212
Earn less money.....	212
Don't cheat.....	212
Be careful with hobby losses	213
Don't cut corners if you're self-employed.....	213
Double-check your return for accuracy.....	214
Stay away from back-street refund mills	215

Chapter 12: Keeping Up with and Researching Tax Strategies and Rules217

The Benefits of Preparing Your Own Return	218
Using IRS Publications	219
Buying Software	220
Accessing Internet Tax Resources	221
The Internal Revenue Service.....	221
Tax preparation sites	222
TaxTopics.net.....	222
Research sites	222
Hiring Help	223

Chapter 13: Paying for Tax Help225

Deciding to Hire Tax Help.....	225
Unenrolled preparers	226
Enrolled agents	227
Certified public accountants	228
Tax attorneys	229
Who's best qualified?	229
Finding Tax Advisors	230
Interviewing Prospective Tax Advisors.....	230
What tax services do you offer?.....	231
What are your particular areas of expertise?.....	231
What other services do you offer?.....	232
Who will prepare my return?	232

How aggressive or conservative are you regarding interpreting tax laws? 232
 What’s your experience with audits? 233
 How does your fee structure work? 233
 What qualifies you to be a tax advisor? 234
 Do you carry liability insurance? 234
 Can you provide references of clients similar to me? 235

Part IV: The Part of Tens 237

Chapter 14: (Almost) Ten Often Overlooked Tax Reduction Opportunities 239

Invest in Wealth-Building Assets 239
 Fund Some Retirement Accounts 240
 Contribute to a Health Savings Account 240
 Work Overseas 240
 Calculate Whether a Deduction Is Worth Itemizing 241
 Trade Consumer Debt for Mortgage Debt 242
 Consider Charitable Contributions and Expenses 243
 Maximize Miscellaneous Expenses 243
 Scour for Self-Employment Expenses 244

Chapter 15: Ten Resources to Turn to After Reading This Book . . . 245

To Develop a Good Business Plan and Improve Your Small Business.... 245
 To Whip Your Finances into Shape 245
 To Select the Best Business Entity 246
 To Set Up an Accounting and Financial Management System 246
 To Hone Your Investment Savvy for Your (and Your Employees’) Retirement Funds..... 246
 For Help with Payroll Regulations and Employee Tax Withholdings ... 247
 To Dig Deeper into IRS Rules and Regulations 247
 To Deal with IRS Collection Efforts 247
 For More Detailed Advice about All Aspects of Your Income Tax Return 248
 For Assistance in Preparing Your Income Tax Return 248

Index 249

<http://www.pbookshop.com>