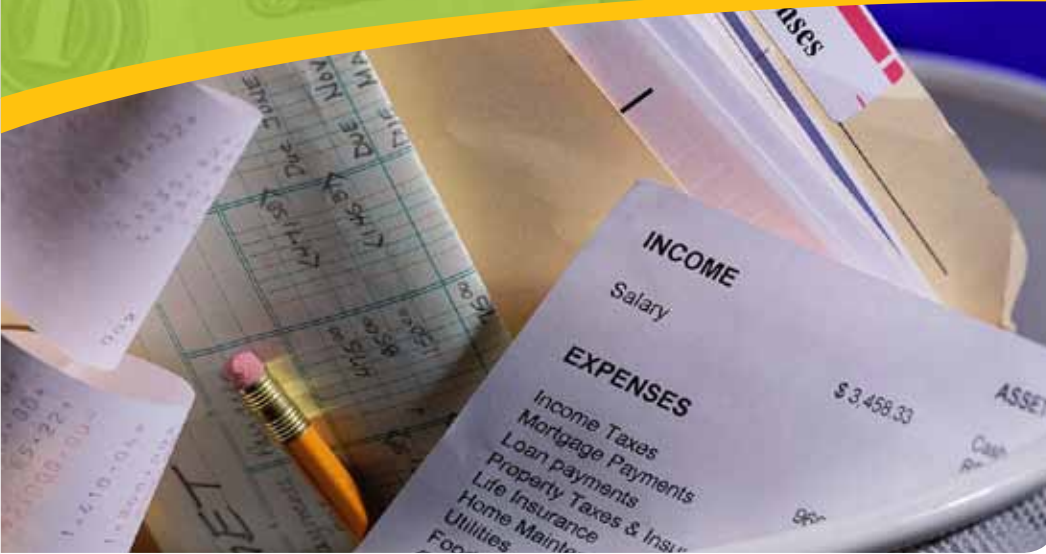


DOLLARS & SENSE

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Tax Professional Choices (and how to spot a good one)

There are many options for preparing your taxes and it can quickly become overwhelming. The method that is right for you relies upon how complicated or simple your tax situation is, as well as how knowledgeable you are about taxes.

Tax Attorneys: Tax attorneys are lawyers who specialize in the field of tax law. Tax attorneys are best for handling complex, technical, and or possible legal situations. Some examples of people that may consider hiring a tax attorney are: People who need advice on complex estate planning; People who need counsel on company tax structure; People involved in international business and anybody that is being investigated by the I.R.S. Finding a tax attorney with a Masters of Law Degree (LL.M) and a background in accounting is advisable.

Certified Public Accountant (CPA): A CPA is a qualified accountant that has passed the Uniform Certified Public Accountant Examination and has met

additional state education and experience requirements, including licensing in their respective state of operation. We recommend you find one that specializes in the tax industry, and that is a member of the American Institute of Certified Public Accountants.

Enrolled Agents (EA): An enrolled agent is a person that has passed a three-part comprehensive IRS test covering individual and business tax returns, or has experience as a former IRS employee. Individuals, who obtain EA status, must adhere to ethical standards and complete 72 hours of continuing education courses every three years. Be sure that any EA, you hire, is a member of the National Association of Enrolled Agents.

National Tax Preparation Chains:

These are the storefront properties you see that are often found in shopping centers and strip malls. Places like Jackson Hewitt and H&R Block are decent choices when you have a cookie cutter tax situation that is simple and straightforward.

DIY Programs: Do-it-yourself (DIY) software programs or websites like TurboTax and TaxACT will easily lead you through filing taxes yourself. They are fairly inexpensive, straightforward and easy to use. There are a lot of options out there so be sure whoever you choose provides the support you need for questions and IRS investigations and audits.

Free Tax Prep: These are places that offer free tax preparation for low to moderate-income individuals. Some examples are the AARP Foundation Tax Aide and IRS Free file.

No matter which method you choose, it's a good idea to ask these seven basic questions to ensure you are hiring a good tax professional that meets your individual needs.

1. What are your credentials?

This should be a standard question for any professional you are thinking of hiring whether a doctor, a lawyer, a nanny or a tax professional, it's important to know their education and experience history.

2. Do you have a preparer tax-identification number (PTIN)?

Anyone who prepares or assists in preparing federal tax returns for compensation must have a valid PTIN.

3. Do you belong to a professional membership organization?

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Six helpful tax-time tips for small businesses.

If you own a small business or work from home, these six helpful tax tips may help you reduce your tax liability, increase your profits, and help your business grow.

Business loans

Luckily for small businesses and the self-employed alike, business loans are not considered taxable income, and while the principle on your loan is not tax deductible, the interest you pay on your loan is. Also, if you use the money for eligible business expenses such as purchasing assets or operating expenses, those items and expenses can be deducted from your taxes. Keep in mind that if your lender forgives any part of your debt, that amount will become taxable income.

Adjust your tax bracket

Accelerating or deferring your income is an effective way to ensure that your business stays in the lowest tax bracket achievable. It is a simple technique that takes some forethought.

Being self-employed gives you many deduction options. Consult [irs.gov](https://www.irs.gov) and your tax professional to find the deductions that are right for your small business.

When to accelerate your business income: If you anticipate that your business will substantially grow in the next tax year, moving you into a higher tax bracket, you could consider accelerating your business income this year. After all, it makes sense to pay taxes on something in a lower tax bracket sooner, than in a higher tax bracket later. In order to do this, you simply accelerate taxable income into the current year to save on future taxes next year. Some examples of this are:

- Sell any assets that would result in a capital gain this year in order to accelerate income.
- Collect any owed dividends before the year's end.
- Take any planned distributions from your retirement plan this year instead of next. (Don't forget the 10% penalty unless you're 59½ years of age or meet an exception)
- Advance collections by providing discounts or incentives for end-of-year payments.

When to defer your business income: To prevent your business from moving to a higher tax bracket during the current tax year, consider deferring end-of-year income until the next tax year.

- Delay billing so that you receive payment at the beginning of the next taxable year.
- Defer year-end bonuses to the following year.
- Maximizing your retirement plan contributions.
- When you sell business property, consider receiving payments in annual installments, this will defer taxes on the capital gains you make over multiple tax years.

Stay current on your estimated quarterly taxes

Some self-employed people are surprised to discover that if they expect to owe taxes of \$500 or more when filing a return, they should be paying estimated quarterly taxes to the IRS. The good news is when you do pay quarterly taxes, you will have paid most of what you owe by the time tax-time

rolls around. The bad news is, if you fail to do this, the IRS can hit you with a penalty for late payments.

The penalty amount depends on how late you are and how much you owe. It is better to pay late than not at all because the penalty can accrue daily and will add up substantially. The IRS has an estimated tax worksheet (Form 1040-ES) available on to help you estimate the quarterly taxes you owe. Quarterly estimated taxes are due on April 15, June 15, September 15 and January 15 of the year.

Make the most of your deductions

Being self-employed gives you a bountiful selection of deductions that can help your final tax results. Consulting [irs.gov](https://www.irs.gov) and your tax professional are the best ways to ensure that you find every deduction for which your small business is eligible. Three of the most common and powerful tax deductions for small business owners are:

Home Office: If you use part of your home regularly and exclusively for business, you can deduct expenses for the business use of your home. This deduction is available for homeowners and renters alike, and applies to all types of homes. The IRS has two calculating options when choosing a deduction for your home office, the simplified option, and the traditional method.

The simplified option pays you a standard deduction of \$5 per square foot of your home that is used for business (with a maximum of 300 square feet). Home-related itemized deductions can also be claimed in full on a Schedule A (things such as mortgage interest and real estate taxes). A home depreciation deduction cannot be used for the years that the simplified method is used.

If you use the traditional method, you may be able to deduct a portion of your mortgage or rent, property taxes, insurance, utilities, repairs and

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Tax Professional Choices

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A tax professional that belongs to an organization such as the American Institute of Certified Public Accountants or the National Association of Enrolled Agents is held up to a higher standard of excellence and keeping an active membership shows dedication to their profession.

4. What kinds of clients and tax returns do you specialize in?

Some tax professionals specialize in returns for specific professions (i.e. commercial fishermen, active inves-

tors, or the self-employed). When seeking to hire a tax professional, be sure they are experienced in your particular situation.

5. Can you give me a price estimate?

Just like your tax preparation options, prices vary greatly among tax professionals. Nothing is more disappointing than finding out that a quarter of your return is going to preparation fees. A good tax professional will gladly give you an estimate.

6. Do you provide audit support?

Although audits are rare, they can happen to any taxpayer. It's important to know that your tax professional will provide support for something as simple as providing requested tax documents to as complex as representing you in front of an IRS examiner.

7. Are you available all year for questions or concerns?

Some tax professionals only work during tax season (between Jan 1 and April 15th). If you need advice or have questions during the rest of the year, you need a tax professional available year round. ■

Organized Documents Make Easy Taxes

Having a well-organized filing system to deposit all of your receipts, invoices, expenses, and important transactions in can save you weeks of stress and anxiety during tax season. There are many solutions with varying degrees of complication, but the important thing is that it's simple to use and that you can easily find the documents when you need them. We recommend using a filing system with the following categories or something similar.

Important files:

This is where you keep documents such as birth certificates, adoption decrees, social security cards, tax IDs, and previous year's tax returns.

Income file:

This is where you will keep the paperwork on all your taxable income. You can break it out into subcategories such as:

- **Earned Income:** This is where you will keep your W2 from your employer or your 1099 if you're an independent contractor as well as all paid invoices if you're self-employed.
- **Capital Gains:** A capital gain is essentially any profit you make from a capital asset. This file is where you will keep paperwork from any assets (i.e. stocks or property) that you have sold that made a profit (or loss).

Expenses file:

This is where all of your business expenses throughout the year are kept. You can break them out into subcategories such as: Home Office, Automobile, Utilities, Interest Paid, Insurance, Taxes Paid, Medical Expenses, and Charitable Contributions.

It is essential to keep a place of temporary deposit in your car or purse. A simple standard mailing envelope or a plastic accordion-style coupon holder (available at any office supply store) works well. The reason is simple, if it isn't easy to access, it won't be consistently used. Chances are; you won't be home when you are buying supplies, getting gas or buying office supplies, so your organization system must travel with you. Empty your temporary deposit envelopes into your permanent home organization system weekly, to keep the paperwork from piling up.

Your smartphone can also be a powerful tool, with mobile apps like PaperBox, XpenseTracker, and Shoeboxed; you can stay clutter-free, organize receipts, track mileage, and complete expense reports with ease. Another option is a desktop receipt scanner with software that will scan, extract and organize your receipts and expenses. If these are not an option, we recommend keeping a ledger and totaling your receipts every month, so that when tax time comes, you have a total expense amount. If you simply give a box of receipts to your tax professional, you can expect to pay \$50 an hour or more for them to go through it and total it up for you.

Six helpful tax-time tips for small businesses. (continued from p.2)

additional expenses. This method also includes a possible home depreciation deduction. The amount you can deduct is a percentage based on the square footage of the business portion of your home vs. the total square footage of your home. That percentage is then applied to all associated costs. For small businesses and the self-employed, being able to deduct eligible home office expenses against self-employment income is one of the most important and effective tax deductions out there.

Automobile: If you use your car for business you can choose from two types of deductions. The standard mileage method or the actual expense method. The standard mileage method takes the total miles driven during the year, subtracts the miles driven for personal use and then multiplies the remaining miles with the appropriate IRS standard mileage rate. The IRS standard mileage rate for 2014 is 56 cents per mile. If you use the standard mileage rate, you cannot deduct actual car expenses in the same year.

The actual car expense method may include a deducted percentage of payments, interest, fuel, insurance, repairs, maintenance, etc. You will need to keep a log of business miles driven as well as records of the actual car expenses. The depreciation expense of your vehicle is also deductible. At the end of the year, you divide your business miles by total miles driven. The resulting number is your business use percentage. You then multiply the business use percentage with your actual expenses to figure out your car expense deductions.

Office Equipment: Office equipment is a non-real estate business asset that you use in your business. These assets usually have a determinable life

span that exceeds one year and has a value that can be calculated and depreciates over time. Some examples are office furniture, computers, printers, telephones, scanners, etc. There are several ways you can deduct office equipment. One option is to use the section 179 deduction that allows you to deduct the entire cost of an asset in the year you acquire and start using it for business. The other option is a depreciation method, either the straight line or the accelerated method. These methods allow you to receive a deduction percentage over the course of three years using a mathematical equation divided by 3, 5 or 7 years (depending on the category of your office equipment). Talk to your tax professional about which method is right for you.

Keep organized and thorough business expense records

Chances are, if you were to look through your wallet or purse, you will find wadded up, faded old receipts. Receipts that you likely have long forgotten about. If you own your own business, it's paramount that you treat your receipts like money, not trash! Those little pieces of paper can add up to big business deductions. Saving your business expense records is more likely if you have an organized filing system in place.

Hire your children

Hiring your children has a two-fold benefit. It is one of the easiest ways to reduce self-employment income, and it helps prepare your child for the future. First, write an age appropriate job description, then fill out a W-2, and finally, write them a company paycheck every pay period. The work should be age appropriate with a reasonable

hourly wage. Keep good records of the work performed, and money paid.

You can deduct their wages as a business expense, and your child will learn about the responsibility of earning a paycheck. Your child can earn up to \$6,200 tax-free. You should consider putting a portion of their earned income into a Roth IRA. There is no minimum age to set up an account, and because the amount of money earned is tax-free, they can deposit the full amount of their earnings with a 0% tax liability. Also, because it's a Roth IRA, they will be able to withdraw without taxation, and their money will earn years of compound interest. It's a beautiful thing.

These are just a few techniques that small businesses may employ to help save money during tax season. Additional powerful tools in the small business belt are tax credits. Each year new tax credits become available while other tax credits expire and are extended. As well, new deductions become available, old deductions are retired, and tax laws change annually. It is imperative to consult the IRS website and your tax professional for the latest tax credits and deductions available to you. ■



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