YEAR-END COMPILER

An organizer with year-end tips for the sole proprietor

Time to get organized

It's time to pay Uncle Sam for what you have made. This organizer is designed to help you compile the information for Schedule C.

As a small business owner, you are the cornerstone of America, one of 15 to 20 million of them, that is.

You will pay income tax **and** self employment tax on gross income minus allowable expenses.

By following the three steps below and using the ***tips*** along the way, you should be able to save tax dollars.

You may be the cornerstone of America, but you do not want to be the whole foundation when it comes to paying tax.

If you look at Schedule C, you will notice three sections, which we will cover in 3 easy steps:

Step 1: Who are you?

Step 2: How much did you make?

Step 3: How much did it cost you to make the money?

Who are you?

Uncle Sam wants to know who you are, where you operate, and what you did to make money. If you have more than one business, you need to do a separate Schedule C for each of them..

Use this organizer for only one business.

Business name____

What do you do?______________________________________

Business address______________________________________

How many months was your business in operation during the year?

o 12 months

o from ________ to ________

How many hours did you devote to the business during the year?

o Full time or_________________

Now that you have recorded who you are,

you are ready for Step 2.

How much did you make?

Part 1 of Schedule C records your *Gross Income* (before deductions).

Gross Receipts are the income you receive from your business. You should have evidence to support these receipts. The law does not require you to keep any certain kind of record as long as the method you choose clearly shows your income and is consistent.

Some examples of methods are printed below. Enter your **gross receipts** next to the method you used.

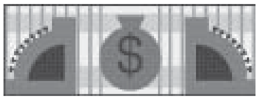
_________ Cash Register Tapes   _________ Invoices

_________ Bank Deposits   _________ 1099 Forms

_________ Record Books   _________ Other (explain)

____

Cash or accrual?



There are two basic methods of accounting. Most small businesses use the cash method.

Cash method: With the cash method, income is recorded as you receive it. Expenses are recorded as you pay them.

Accrual method: With the accrual method, income is reported when you earn it even if you haven't received it yet, Expenses are recorded when you owe them even if you haven't paid them yet.

Which method did you use to record your gross receipts?

o Cash o Accrual

TIP: **To reduce your Gross Income, delay your December billing to customers to defer it to January. Be aware of the term constructive receipt which means money is yours when you have a right to receive it. That is, if you have money, but have not yet deposited it in the bank, you have income.**

Did you sell a product?

If you sold or manufactured a product you need to figure the cost of the goods you sold. Basically, you can only deduct the items you purchased or made **and** actually sold.

Separate into the following categories the costs associated with the items sold to customers from the rest of your expenses:

__________Purchases of items for sale

__________Items withdrawn for personal use

__________Purchase of manufacturing material

__________Labor paid for manufacturing

__________Other production costs

__________Packaging

Now that you have separated the costs of the items you held for sale to customers, you need to determine year-end inventory. There are many methods for doing this. A physical count is common.

________Year-end inventory (How much is left at the end of the year - at your cost) *or,* if it's too late to spend New Year's Eve counting

________What was the cost to you of each item you sold?

________If you use this method, also calculate the cost of lost, stolen, or broken items.

TIP: **Since you can't deduct it until it's sold, reduce your year-end inventory by destroying dead stock (keep evidence), or giving it to charity.**

Now that you have recorded your gross income, you are ready for step 3.

What did it cost you to make the money?

What expenses are deductible? The two key words to remember are **ordinary and necessary.** Internal Revenue Code Section 162 states:

There shall be allowed as a deduction all the ordinary and necessary expenses paid or incurred during the taxable year in carrying on a trade or business. …

Where to begin?

Begin by collecting whatever evidence you have of **ordinary and necessary** expenses. You may have any one of the following:

Bag or box of receipts

Canceled checks

Check carbons

Itemized computer printout

If you have the printout, the task ahead will be simple. Just read through the following lists to make sure you haven't missed anything.

If you have receipts and checks, you will need to create a computerized printout or sort the evidence into piles according to category and add them up. Then check the list for more.

If you started your business this year, separate the expenses paid for before business began and enter here: ________Equipment ________Inventory ________Other expenses

Ordinary and necessary expenses

The following list is not all-inclusive for every taxpayer. An ordinary expense for one business may not be ordinary for another.

_______**Advertising/Promotion:** Ads, bus. cards, holiday cards. (Uncle Sam doesn't' mind seeing a large number here).

_______**Car and truck expenses:** see separate section

_______**Commissions and fees:** include contract labor here. If you paid over $600 to one individual for services rendered, you must prepare a 1099.

_______**Equipment purchased:** see equipment section

_______**Employee benefits:** Health ins., holiday or employee party, mileage reimbursements, parking and mass transit benefits...

_______**Insurance:** Workers Comp., business liability, malpractice, ... (not auto, health, home)

_______**Interest:** Mortgage on business building, equipment loans, business loans, business-only credit card.

_______**Legal and Professional:** Attorney and accounting fees, bonds, consulting, secretarial... If you paid over $600 to an individual, you must make a 1099.

_______**Office expense:** postage, stationery, office supplies, bank charges, printing and copying, pens, ...Do not include equipment here. If this category gets large, break it down into sub- categories.

_______**Pension and profit sharing plans** for employees.

_______**Rental/ lease of equipment**

_______**Rental of other business property:** office space, storage, land....

_______**Repairs and maintenance:** to building and equipment (do not include auto, home)

_______**Supplies:** trade supplies, small tools, expendable non-office items.

_______**Taxes and licenses:** personal property taxes, business licenses, real estate taxes (not your home)

_______**Taxes/ Sales Tax:** include if Sales Tax is included in gross receipts.

_______**Taxes/ Payroll**

_______**Travel:** see travel section

_______**Meals:** Business meals are 50% deductible. You must have a record of who, where, when, and why. The portion of a business meeting that is entertainment (e.g. sports tickets) is not deductible.

_______**Telephone:** business line, second line (the first line coming into your home is not deductible), phone enhancements, fax transmissions, pager, cell phone (business %)

_______**Utilities:** electricity, heat, garbage, water (do not include home office expenses here).

_______**Wages:** Include gross wages from W-2's.

_______**Alarm service**

_______**Answering service**

_______**Bank charges** if not already listed elsewhere.

_______**Books**

_______**Credit card charges**

_______**Courier/ delivery services**

_______**Conventions/ meetings**

_______**Dues and publications**

_______**Education/ seminars**

_______**Fuel for equipment** (not auto)

_______**Gifts** (limit of $25 per person)

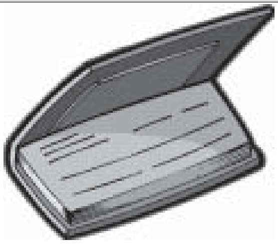
_______**Laundry and Uniforms**

_______**Postage**

_______**Show fees**

_______**Other** ___________________________

TIP: **The best defense in case of an audit is a business checking account with all income consistently tracked. If you do not have one, make sure the method you use is substantiated beyond doubt. Using a bank account to track income is cheap, efficient, and essential if you want your business to grow.**



Do you work in your home?

If you have an area in your home that is regularly and exclusively used for business, you may benefit from the home office deduction. Your office must be one of the following: Your principal place of business, a place you meet customers, a place where you store inventory for resale, or a place where you conduct administrative activities.

To take the home office deduction you will need the following:

__________Date you acquired the home

__________Total cost of the home

__________Cost of the land

__________Cost of improvements

__________Square footage of the home

__________Square footage of the office area

__________Mortgage interest

__________Property taxes

__________Insurance

__________Repairs and maintenance

__________Utilities

__________ Rent paid (if you rent)

Using the above information, a business percentage is obtained. All expenses are multiplied by that percentage and depreciation is calculated. When the home is sold, all depreciation taken since 5//7/97 must be taxed. Also, on the down side, when the home is sold, if you do not have 2 of the last 5 years without home office, the business percentage of the gain will be taxed.

TIP: **If you are considering selling your home in the near future, avoid the home office so you can meet the 2-year test.**

TIP: **If a home sale is not in your future or you are a renter, the home office is a good idea. It will enable you to deduct more business miles. (see below)**

Do you use your vehicle?

Business mileage requires special recordkeeping. A daily log or record is essential.

What mileage qualifies for a deduction?

You can use one of the following three scenarios to determine how many miles you can deduct. Keep in mind that **commuting is not deductible.**

If you have an office or *regular* place of business outside your home, you may not deduct commuting miles to and from work or to your first and from your last stop home, but you may deduct mileage to a *temporary* work place and mileage to drive to and from different locations during the day.

If you have an office in your home that *qualifies* for a home office deduction, all of your business-related mileage is deductible.

If you work at your home, but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are nondeductible commuting miles. You should plan to have your first and last stops close to home to maximize the mileage deduction. A trip to the bank, gas station, post office, or a nearby supplier can help increase deductible business miles. **The proof is in documentation.**

Deducting mileage

Now that you know what miles to count, you need to choose one of the two methods of deduction. Whichever method you use, you will have to know the following:

__________Year and make of the vehicle

__________Date purchased

__________Business miles driven

__________Total miles driven

Beginning odometer__________(January 1)

Ending odometer __________(December 31)

__________Total miles commuting to work

__________Parking and tolls

__________License plate fees

__________Loan interest

Standard mileage rate: The IRS has a standard mileage rate you can apply to your business miles driven. It is subject to change yearly. Also, you may deduct the business percentage of license plates and loan interest, plus all of your business parking.

TIP: **In general, the standard mileage rate works best if your business mileage is high or your car is economical to operate.**

Actual expense method: You may deduct the business percentage of all expenses plus parking and depreciation. The following additional information is needed:

__________Cost of the vehicle	___________Insurance
__________Gas	__________Supplies, washes, waxes...
__________Oil, lube	__________Lease payments
___________Repairs, tires, batteries	

TIP: **The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not drive many miles in total.**

TIP: **If you keep an appointment book, it already shows where you went, so you can write a mileage total on each day without keeping a separate book.**

Did you buy equipment?

List your purchases of equipment for the year below. Check through your lists of office expenses and supplies for items that might fall into this category.

Item purchased	Date purchased	Cost
_________________	____________	________________
_________________	____________	________________
_________________	____________	________________
_________________	____________	________________
_________________	____________	________________

Did you travel for business?

You may deduct ordinary and necessary living expenses incurred when you are away from your tax home overnight for business. Your travel records must show the following information: Dates and times of arrival and departure, number of days actually spent on business, business places visited, and business reason for travel.

The following items can be deducted:

__________Transportation

__________Meals

__________Business phone calls

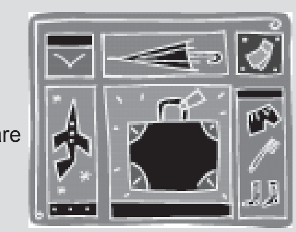
__________Laundry and cleaning

__________Cab/ local transportation fare

__________Lodging

__________Tips and baggage

__________Other ordinary & necessary expenses



Instead of deducting the actual cost of meals, you may use the standard meal rate which varies from city to city. Indicate the cities to which you traveled and the nights you spent in each city.

city____________________ nights out________

city____________________ nights out________

city____________________ nights out________

city____________________ nights out_______

city____________________ nights out________

It's complete!

Your business information is now ready for your tax appointment. This compiler only touches on the many ways you can make the tax law work for you. Your tax preparer will help you customize the information to your situation.