Internal Revenue Service
Helping Small Business
SUCCEED!

*The visual portion of today's presentation will appear on this screen

*You MUST call in to hear the audio portion:
AT&T Teleconference Number:  (888) 331-8226
Access Code: 5951258
PLEASE DO NOT PUT YOUR PHONE ON HOLD! *6 TO MUTE

*If you are experiencing technical difficulties, please let us know by typing a message in the chat box

Sherry Gegen
Business & Industry Liaison
Center for Innovation and Enterprise Engagement
Sherry.Gegen@wichita.edu
Avoiding the Top Tax Mistakes that Small Businesses Make

Melody Green and Catherine Murphy
IRS Stakeholder Liaison
February 24, 2014

Agenda

• Recordkeeping
• Report all taxable income
• Keep business expenses separate
• New for 2013-Simplified Option for Home Office Deduction
• Choose your tax preparer carefully
• Do your homework – IRS Resources
Recordkeeping

• Maintain records needed to figure your income.
• Keep records needed to figure your deductions:
  – Cancelled checks
  – Receipts
  – Other evidence
• Retain records as long as you may need them

Report all Taxable Income

• Report all taxable income on your return.
• Most income is taxable unless it is specifically exempted by law.
• You can receive income in the form of
  – Cash
  – Check
  – Credit Card
  – Non-cash exchanges such as bartering
Keep Business Expenses Separate

- Avoid claiming personal expenses as Business expenses – always keep these separate.
- Three top expenses reviewed by IRS
  - Home Office Deduction
  - Auto Expenses
  - Travel and Entertainment Expenses

Simplified Option – What’s changing

- For tax year 2013
- Doesn’t change who can claim deduction
- Simplifies calculation and recordkeeping
- Based on a prescribed rate for allowable square footage of office
Highlights of Simplified Option

- Prescribed rate (deduction) of $5/square foot
- Maximum 300 square feet
- Special calculation for daycare providers
- Use Schedule A for home-related itemized deductions
- No home depreciation or recapture deduction

Still Required

- Two requirements to qualify for a home office deduction:
  - Regular and exclusive
  - Principal place of business
- Deduction can’t exceed gross income from business use of the home less the business expenses
What you need to know

- You have the option of using two methods
- Simplified method on Form 1040, Sched. C
- Regular Method on Form 8829
- Full details on the new option are in Revenue Procedure 2013-13 on IRS.gov
- More information in IRS Publication 587

Comparison of Methods

<table>
<thead>
<tr>
<th>Simplified Option</th>
<th>Regular Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction for home office use of a portion of a residence allowed only if that portion is exclusively used on a regular basis for business purposes</td>
<td>Same</td>
</tr>
<tr>
<td>Allowable square footage of home use for business (not to exceed 300 square feet)</td>
<td>Percentage of home used for business</td>
</tr>
<tr>
<td>Standard $5 per square foot used to determine home business deduction</td>
<td>Actual expenses determined and records maintained</td>
</tr>
</tbody>
</table>
Comparison of Methods

<table>
<thead>
<tr>
<th>Simplified Option</th>
<th>Regular Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home-related itemized deductions claimed in full on Schedule A</td>
<td>Home-related itemized deductions apportioned between Schedule A and business schedule (Sch. C or Sch. F)</td>
</tr>
<tr>
<td>No depreciation deduction</td>
<td>Depreciation deduction for portion of home used for business</td>
</tr>
<tr>
<td>No recapture of depreciation upon sale of home</td>
<td>Recapture of depreciation on gain upon sale of home</td>
</tr>
</tbody>
</table>

Carefully Choose your Tax Return Preparer

- Be aware of return preparer fraud
- 60% of taxpayers seek professional help
  - Most preparers are honest
  - Some prey on unsuspecting taxpayers
- You are legally responsible for your return
Do your Homework

- IRS has helpful publications
- IRS Small Business & Self-Employed Center
- Small Business Tools & Resources
  - Small Business Advantage
  - E-News for Small Businesses
  - Small Business Tax Workshops
  - Online Learning and Education products

Online at IRS.gov
Recordkeeping

Why should I keep records?
Good records will help you monitor the progress of your business, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns.

What kinds of records should I keep?
You may choose any recordkeeping system suited to your business that clearly shows your income and expenses. Except in a few cases, the IRS does not require any special kind of records. However, the business you are in affects the type of records you need to keep for federal tax purposes.

How long should I keep records?
The length of time you should keep a document depends on the action, expense, or event the document records. You must keep your records for as long as they may be needed to prove the income or deductions on a tax return.

How long should I keep employment tax records?
You must keep all of your records so long as they may be needed; however, keep all records of employment taxes for at least four years.

How should I record my business transactions?
Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. These documents contain information you need to record in your books.

What is the burden of proof?
The responsibility to prove entries, deductions, and statements made on your tax returns is known as the burden of proof. You must be able to prove (substantiate) certain elements of expenses to deduct them.

Go to the Small Business and Self-Employed Web Site

IRS Small Business Workshops

Small Business Tax Workshops and Webinars

Small Business Workshops
The IRS broadcasts workshops on a variety of subjects aimed at educating small business owners on issues affecting them. Online access provides the convenience of viewing workshops whenever and wherever you choose.

Small Business Tax Workshops and Webinars

Small Business Workshops
The Virtual Small Business Workshop is available or going to help new small business owners understand and meet their federal tax obligations.

Small business workshops, designed to help the small business owner understand and fulfill their federal tax responsibilities, take place at various locations throughout the country. Workshops are sponsored and presented by IRS partners specializing in federal tax.

Workshop topics vary from a general overview of taxes to more specific topics such as recordkeeping and retirement plans. Although most are live, some workshops have been recorded and are available for viewing.

Workshops in Spanish (Taller en español)
If you live near a state line, please look for workshops in nearby cities of the bordering state.

Alabama
Alaska
Arizona
Arkansas
California
Colorado
Connecticut
District of Columbia
Florida
Georgia
Hawaii
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
Missouri
Montana
Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Utah
Vermont
Virginia
Washington
West Virginia
Wisconsin
Wyoming
IRS Publications

Tax Guide for Small Business
(For Individuals Who Use Schedule C or C-S2)

IRS – eNews for Small Business Owners

Issue Number: 2012-16

Inside This Issue

1. Planning for the future

IRS.gov has information on choosing, operating and maintaining retirement plans for small businesses.

2. Government resources for small businesses

IRS.gov has a broad range of information from other federal, state and local agencies all in one spot.

3. Online small business training network

Other Resources

Find It Here!
All Form and Pub.
Get Image IRS
Federal Tax Gap
Retirement Plan
Follow the IRS on Social Media

Follow the IRS on Social Media

Share IRS Resources on Social Media

The IRS Video Portal - Small Business Video and Audio Presentations

The IRS Video Portal contains video and audio presentations on topics of interest to small businesses, individuals and tax professionals. You will find video clips of the topics, archived versions of live panel discussions and webinars, as well as audio archives of live practitioner forums.

In addition, please visit the IRS Small Business Tax Workshops page for instructional, informational sessions designed to help new small business owners learn their tax rights and responsibilities.
Putting It All Together...

IRS RESOURCES FOR SMALL BUSINESS OWNERS

Small business owners, especially new sole proprietors, can find a wealth of information covering their federal tax responsibilities on IRS.gov. The IRS has a series of "Helping Small Business" pages with pages for everything small business owners need to know.

Online at IRS.gov:
- Tax Calendar for Small Businesses
- Online Learning and Educational Products
- Live Small Business Tax Workshops and Webinars
- Starting a Business

This page provides links to basic federal tax information for people starting a business, as well as information to assist in making basic business decisions.

On Small Business Tax Topics:
- Business Start-Up
- Business Tax Planning
- Business Tax Return
- Business Tax Planning and Compliance
- Business Tax Services

Publication: "Starting a Business and Your Federal Income Tax"
- Publication 533 - Starting a Business and Your Federal Income Tax

To make it easy for you...

RECORDKEEPING

Good records will help you monitor the progress of your business, prepare your financial statements, identify much of the information you'll need to report to the IRS, and support income reported on tax returns.

Online at IRS.gov:
- Recordkeeping

Publication: "Starting a Business and Keeping Records"
- Publication 533 - Starting a Business and Keeping Records

Verbal:
- "Recordkeeping Made Easy at Tax Time" Webinar

Publication: "Recordkeeping Made Easy at Tax Time"
- Publication 533 - Starting a Business and Keeping Records
Thank You!

Small Business Organizations Interested in Partnering with the IRS? Please Contact Us:

Melody Green, IRS Stakeholder Liaison
Melody.J.Green@irs.gov

Business Tax Questions?
Business and Specialty Tax Line
(800) 829-4933