TaxTips

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Automobile Expenses

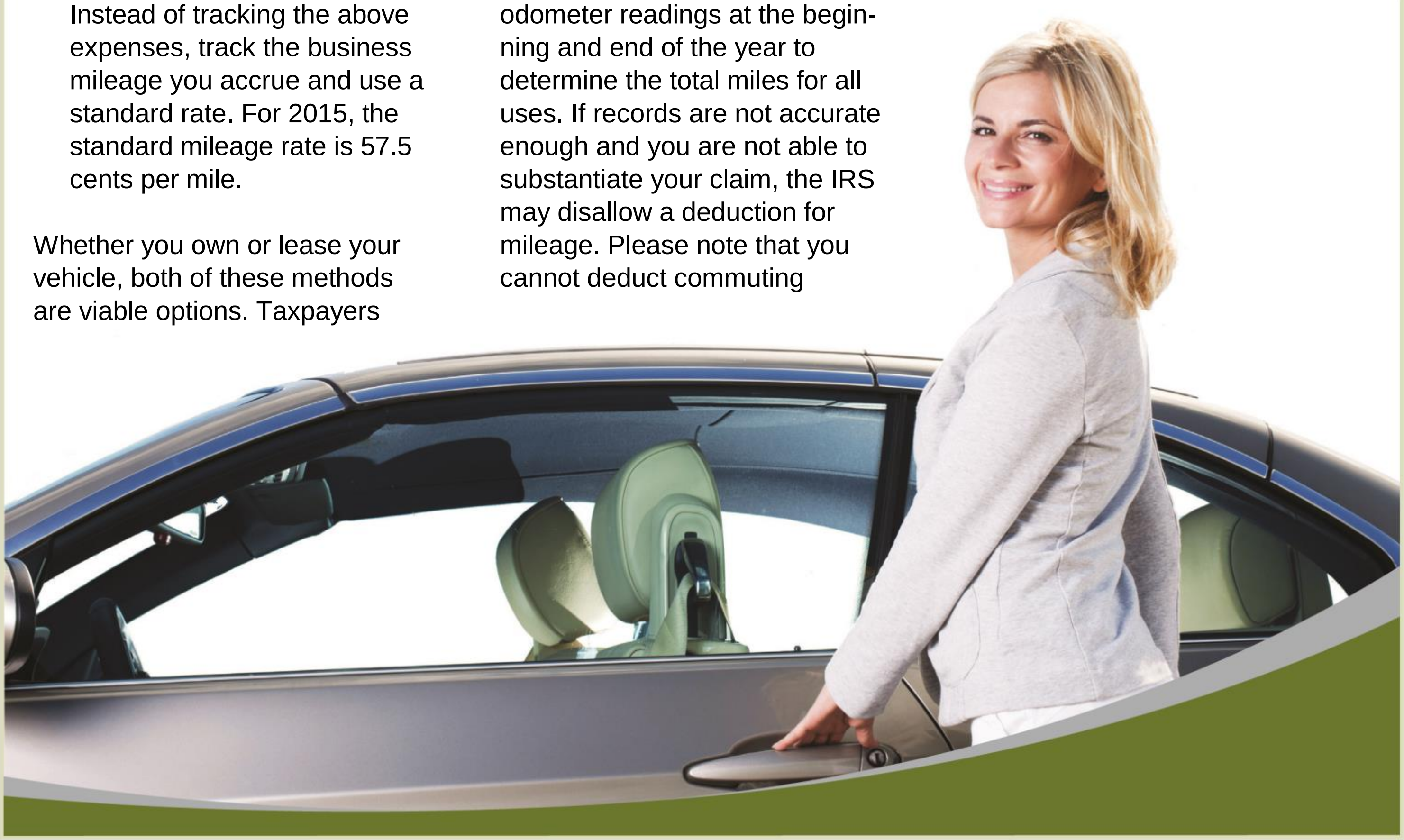
Do you use your car for business purposes?

If you use an automobile for business, you may be able to receive a tax deduction to lower your income tax. Deducting auto expenses requires diligent recordkeeping and accurate calculations. There are two ways to calculate your auto deductions:

- **Actual expenses.** Track all eligible deductions, such as the cost of gas, oil, repairs, insurance, maintenance, tires, washing, licenses and depreciation or lease payments.
- **Standard mileage rate.** Instead of tracking the above expenses, track the business mileage you accrue and use a standard rate. For 2015, the standard mileage rate is 57.5 cents per mile.

Whether you own or lease your vehicle, both of these methods are viable options. Taxpayers who wish to use the standard mileage rate in lieu of actual expenses for computing deductible vehicle expenses must elect to do so in the first year of business use. Switching to the standard mileage rate in a later year is not an option.

To receive these deductions, you must keep accurate records of the miles incurred for business, dates of business use, destinations and the business purpose. You'll also need to note the odometer readings at the beginning and end of the year to determine the total miles for all uses. If records are not accurate enough and you are not able to substantiate your claim, the IRS may disallow a deduction for mileage. Please note that you cannot deduct commuting mileage—that is, mileage from your home to your regular job. However, if you're self-employed and maintain an eligible office in your home, you can deduct the mileage to and from your clients, as well as between jobs. You can also deduct mileage between jobs or to a temporary assignment. If you don't have a regular place of business, you can only deduct your transportation expenses to a temporary location outside of your general area of employment.



Self-Employed Health Insurance Deduction

Are you eligible?

If you're self-employed and paying your own health insurance, you may be eligible for a large tax deduction. Those who can claim the deduction include:

- Small businesses, sole proprietorships, qualified joint ventures or farmers reporting income on Schedule C, Schedule C-EZ or Schedule F.
- Partners with self-employment earnings reported on Schedule K-1.
- Shareholders who were paid wages reported on Form W-2 and who own more than two percent of the outstanding stock of an S corporation.
- Taxpayers who used an optional method to figure net earnings from self-employment on Schedule SE.

Keep in mind that the deduction is not available if you're eligible to participate in an employer-subsidized health plan maintained by your employer or your spouse's employer.

Paying Estimated Taxes

The who, what, when, why and where

When clients become their own employer and stop receiving their own paycheck, I'll usually schedule estimated tax payments, so the government can still collect taxes from their income.

Why pay estimated tax? Estimated tax payments are used to pay tax on income that is not subject to withholding. This includes income from self-employment, interest, dividends, alimony, rent, gains from the sale of assets, prizes and awards. You may also have to pay estimated tax if the amount withheld from your salary, pension or other income is not enough to cover your tax liability.

Who must pay estimated tax? Individuals, sole proprietors, partners or S corporation shareholders who expect to owe tax of $1,000 or more when they file their return will generally have to make estimated tax payments. The same applies to corporations that expect to owe $500 or more. You may also have to pay estimated tax for the current year if you had a tax liability for the prior year.

When are estimated payments due? For estimated tax purposes, the year is divided into four payment periods, each with a specific payment due date. If you don't pay enough tax by the quarterly due date, the IRS may charge a penalty, even if you are due a refund when you file your income tax return.

Where and how are estimated taxes paid? In most cases, you can pay online using the Electronic Federal Tax Payment System (EFTPS). I'd be happy to work with you to determine how much you'll need to pay.

New Filing Deadlines for Business Returns

New highway law changes due dates

On July 31, 2015, President Obama signed into law the *Surface Transportation and Veterans Health Care Choice Improvement Act of 2015* (*Highway Act*), which includes a provision regarding transfers of excess pension assets to retiree health accounts. Though the bill doesn't have much to do with taxes, it has impacted the 2016 and subsequent tax year filing deadlines for partnership, S corporation and C corporation returns.

The new deadlines are as follows:

- **Partnership returns.** March 15, instead of April 15 for calendar-year partnerships.
- **S corporation returns.** March 15 (no change).

- **C corporation returns.** April 15, instead of March 15 for calendar-year C corporations. Also note, returns for C corporations with a June 30 year-end will continue to be due on the fifteenth day of the third month (September 15) until tax years beginning after December 31, 2025.

The time period for extensions has also been changed for tax years beginning after December 31, 2015. They are:
- 5 months for C corporations that file on a calendar year, until tax year 2026.
- 5½ months for calendar-year trusts.
- 6 months for partnerships and S corporations.
- 6 months for the FBAR.
- 6 months for calendar-year non-profits that file Form 990 series.
- 6 months for any C corporation with taxable years ending on days other than December 31 or June 30.
- 7 months for C corporations with taxable years ending on June 30, but only for taxable years beginning before January 1, 2026.

Feel free to give me a call if you have any questions or concerns about these changes.

Investing in Rental Property

Things to know about income and deductions

Investing in rental property can be a smart financial move, but when it comes to your federal tax responsibilities, it's important to be aware of what is considered rental income and the associated expenses that can be deducted from your rental income.

What's considered rental income? Anything received as rent must be reported as part of your gross income for the year you received the payments. Besides rent payments received from tenants, other rental income includes advance rent, security deposits, payment for breaking a lease, expenses paid by a tenant, property or services received as rent and payments received under a lease with an option to buy agreement.

What are your eligible deductions? You may deduct mortgage interest, property tax, operating expenses, depreciation and repairs. However, you cannot deduct the cost of improvements (i.e., anything that adds to the value of your property).

What records should you keep? Keeping good records of rent, rental repairs and travel expenses incurred for rental property is essential to tracking deductions, preparing tax returns and supporting items reported on the returns. It's also important to keep documentary evidence, such as receipts, canceled checks or bills to help substantiate certain elements of expenses so you can deduct them.

Choosing a Business Entity

Making your most important business decision

If you're starting a business, one of the most important decisions you'll make is choosing what type of entity to operate as. Be sure to weigh your options, because an informed decision at the beginning can save you a great deal of time and expense later. Following is a list of the different entities.

- **Sole proprietorships** are the easiest type of business to form and to terminate. As a sole proprietor, you are the owner of all business assets and are liable for all business debts.
- **Partnerships** consists of two or more individuals who make a voluntary contract to carry on a trade or business. They are separate legal entities from their owners and are not taxable entities.
- **Corporations** are separate legal entities apart from their owner. A corporation is responsible for all of its own transactions and can be sued separately from its shareholders.
- **Associations** are unincorporated businesses that are taxed as corporations for federal tax purposes, even though they may not qualify as a corporation under state law. An association is treated as a partnership unless it elects to be taxed as a corporation.
- **Limited liability companies (LLCs)** are business entities separate from their owners and provide the LLC member with a limited amount of liability, which is usually only common to corporations.

- **Limited partnerships** follow most of the partnership rules, but limited partners are not (and cannot be) active in the business, as they are simply "investors" who share in the profits and losses of the business.
- **S corporations** follow most of the rules of a corporation, but income and losses are passed through to shareholders, thus avoiding double taxation.

Since understanding the tax consequences and operating procedures under each form of organization is vital to your success as a business owner, please turn to me for information regarding entity considerations for your specific situation.

Starting a Business

Where to begin

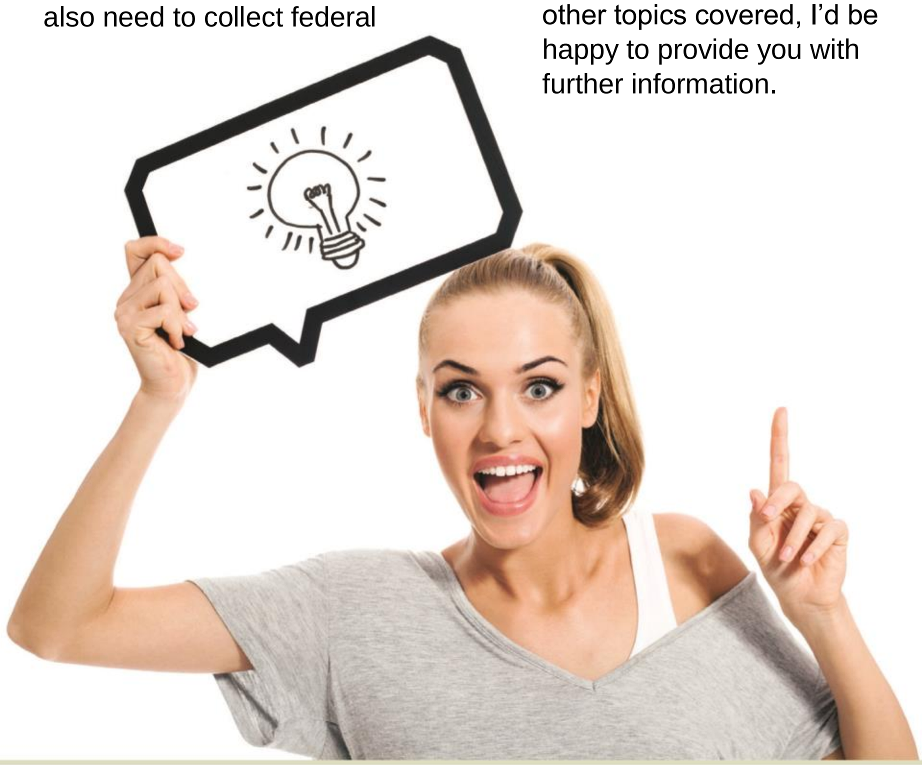
If you have an entrepreneurial spirit and dream of becoming your own boss, you may eventually look into starting your own business. Many people have the desire and solid ideas for starting a business venture, but may either lack the courage to take the first step or simply don't know where to start. Here are a few things to keep in mind that may help guide you in taking those first steps.

Develop a business plan. A business plan is important for obtaining a business loan to set up operations. It acts as a blueprint of your operations for the coming years. Make sure the plan covers the type of business, product or service offered, the type of customers, pricing, start-up capital, revenue and expense forecasts and marketing plans.

Registering a business. You'll need to decide if you're going to start a business alone (as a sole proprietor) or with others (as a partnership). Some states will allow you to simply start a business; others require you to register the type of business and follow certain guidelines before opening the doors.

Tax considerations. Most businesses need an employer identification number (EIN) to file tax returns. To obtain an EIN, you'll have to file Form SS-4, which you can get from me, the IRS or the Social Security Administration. Your state may also require a state ID and/or sales tax number. If you need more information on obtaining these ID numbers, please let me know.

Employees. If you plan to have employees, it's important to know that you're generally responsible for payroll taxes, social security taxes, Medicare taxes and unemployment taxes. You'll also need to collect federal and state withholdings (where applicable) and the employee's share of social security and Medicare taxes.



Start-up costs. You may need to separate some expenses, such as:

- Those you incur in exploring and setting up the business. In general, you may deduct $5,000 of start-up costs. The remaining expenditures are amortized over 180 months, beginning in the first year your business begins.
- Those you incur from the time the business officially begins (currently deductible).

Other considerations. Before starting a business, it's also important to consider the following:

- Record keeping
- Business location
- Capital expenditures
- Liability and asset protection
- Fringe benefits
- State and local requirements

If you have any questions on these topics, or any of the other topics covered, I'd be happy to provide you with further information.