TARGETED TAX BREAKS FOR YOUR REAL ESTATE BUSINESS

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and Former IRS Trainer

TAXBOT

US Edition 2014

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DISCLAIMER

The content in this book is intended for educational purposes only. The reader should recognize that each person's situation is different and you should seek the competent advice of your own tax accountant or tax attorney to ensure that any tax strategies employed here are applicable to your situation.

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INTRODUCTION

Congratulations on your decision to own your own real estate business. You may not know this but you could qualify for some simple tax breaks that could easily put $10,000 cash in your pocket this year no matter how much money you make.

EVERYONE NEEDS A SIDE BUSINESS

Times have changed and having a good job just doesn't cut it these days if you want to retire. Smart people almost always invest their time and money in building something else that can grow into something bigger.

Hopefully, by the time you make it through the first chapter of this book you will realize that you can invest some of the taxes that are withheld from your paycheck to grow your business.

TWO TAX SYSTEMS

There are two tax systems in this country; one for business owners and entrepreneurs, and one for people with regular jobs.

Owning your own real estate business, even if you run it part time, can be the single best financial decision you can make.

So why does the government give you these tax breaks for running your own home-based business? Simple, America is the land of opportunity. Small business is responsible for 70% of the growth of our economy. It also drives innovation.

DO YOU QUALIFY FOR THE MONEY

1. Did you start this business because you wanted to really make money?
2. Are you willing to work on your business 45 minutes each day at least 4 days a week?
3. Are you willing to keep a journal/log of everything you are doing to try to grow your business?

If you answered yes to all of the above questions then you definitely qualify for these amazing tax breaks, even if you work part time from home! Millions of smart people in the US and Canada are taking advantage of the incredible tax benefits of owning a home-based business.

WHAT IS A DEDUCTION?

If you already understand how deductions work then you can move to the next section. For those of you who have never owned a business, please spend a few minutes understanding how deductions work.

A deduction does not equal cash. But, a deduction does help save you money on taxes at the end of the year. So, a deduction has a cash value when it's tax time.

In the United States you pay taxes on what we call your Adjusted Gross Income. This is just a fancy way of saying the money you make minus the deductions you qualify for.

For example, if you make $50,000 in 2013 at your job and you didn't qualify for any deductions you would pay taxes on $50,000.

However, if you have deductions of $10,000 then you pay taxes on only $40,000. If your tax rate were 25% (estimate) then you would be saving $2,500 on your taxes!

	NO DEDUCTIONS	WITH DEDUCTIONS
INCOME	**$50,000**	**$50,000**
DEDUCTIONS	**$0**	**$10,000**
AMOUNT TAXED ON	**$50,000**	**$40,000**
TAXES OWED (25%)	**$12,500**	**$10,000**
CASH SAVINGS	**$0**	**$2,500**

This is a very simplified lesson using average tax rates.

If you want a more in-depth analysis of tax rates, check out the Education Library in your online account at ***www.taxbot.com***.

REDIRECTED TAX MONEY

In the example above we showed that $10,000 in deductions saved you $2,500 in taxes at the end of the year. You might be saying to yourself, "that's true but I would have had to spend $10,000 in order to save $2,500."

What if I told you that you were already spending the $10,000 but because you now have a home-based business, some of your current expenses can now qualify as business expenses?

EXAMPLE

Mary has a regular job and makes $50,000 a year. She received a tax refund of $1,500 last year, but that's not the full story. You see she had already paid almost $11,500 to the IRS because of the money taken out of each paycheck. So effectively, she paid $10,000 in taxes! What if Mary could get back more than the $1,500 at the end of the year? What if she could get back closer to $10,000? Let me show you how this could be possible for Mary.

Let's look at a few of Mary's expenses. Each month she spends money on the following:

- *Eating out with friends*
- *Rent or mortgage payment*
- *Cell phone*
- *Car expenses (gas, oil, wash)*

As an employee, Mary generally doesn't get any tax benefits from these expenses. However, with a home-based business a portion of these expenses may become deductible. So, even current expenses might become potential deductions!

Think of a deduction like the best rewards credit card you can find. If you have an expense that can be justified as a business expense, then it's like getting 20-53% cash back.

BACK TO MARY

Mary started a business. Mary has a cell phone plan that she uses only for business that costs $100/month. If she uses it for 12 months that would cost $1,200/year. If she is in the 35% tax bracket then she will save $420 at the end of the year (35% x $1,200) in cash because she owns a business now!

Just wait until you see what she gets back for these other "expenses."

Now you don't need to go buy a new cell phone for business. You can just use your current phone and figure out what percentage you use it for business and deduct the percentage you use it from your taxes.

Remember that we told you that Mary had paid $11,500 in taxes and received $1,500 back in a refund? Well in the example above with the cell phone she would have received an extra $420 on her refund. Through the rest of this book we will show you how to get more of your money back.

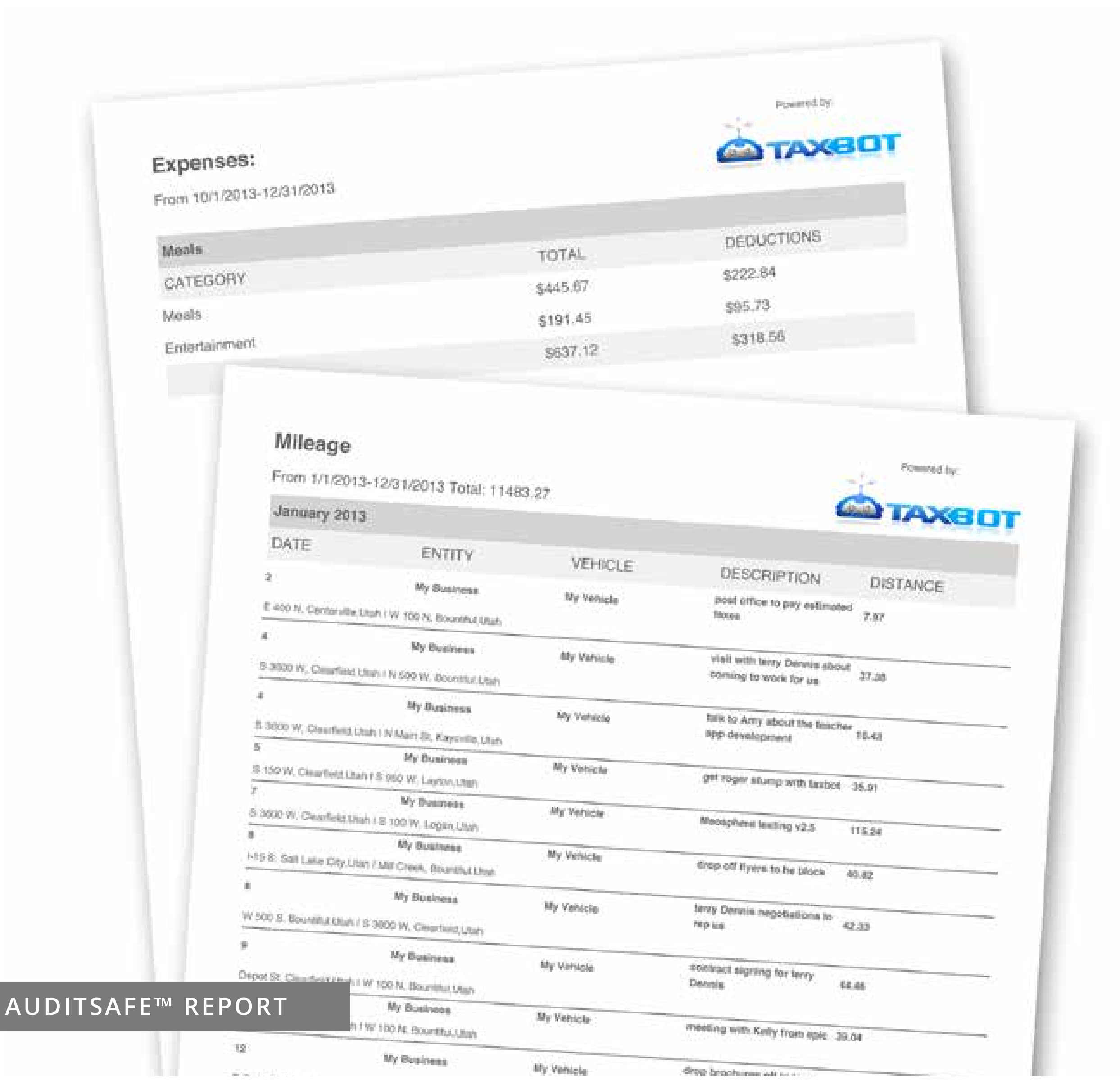
GUILTY UNTIL PROVEN INNOCENT

When it comes to taxes you are guilty until proven innocent. The government acts like an investor. They will give you incredible money-saving tax breaks but they want you to be able to prove that you are using them for the growth of your business and that you are trying to make money.

At any time the IRS can audit you and ask you to defend your deductions. They create the rules and you have to follow them.

Taxbot can help with that. Before we get into the incredible savings let us show you a few quick shots of the type of compliance reporting you get at the end of the year with Taxbot. We call it ***AuditSafe™ reporting***.

The bottom line is that if you answered yes to all the questions earlier in this chapter, then you could qualify for some INCREDIBLE TAX SAVINGS! So let's get started.



AUDITSAFE™ REPORT

AuditSafe Report for V14 User

Powered by: TAXBOT

From 10/1/2013-12/31/2013

Meals - Category

$20.29 -- Oct 01

performance review scott with Scott godown. At valley pines golf.

$4.10 -- Oct 07

travel to long beach convention with jake randall. At sunset news.

$6.29 -- Oct 07

travel day to california with jake randall. At airport.

$30.03 -- Oct 08

car convention with terry Dennis and jake randall. At Boston's.

$55.03 -- Oct 08

car convention with tom Murphy, terry Dennis, jake randall. At claim jumper.

$70.00 -- Oct 09

car event with jake terry Dennis, Scott godown, tom Murphy. At spoonn.

$12.54 -- Oct 10

lunch at car expo with jake and terry. At promenade cafe.

$28.89 -- Oct 10

lunch promenade with terry and jake. At promenade cafe.

$8.42 -- Oct 10

breakfast and water for car expo At Von's.

AUDITSAFE™ REPORT

TIP #1

GET FREE GAS FOR YOUR CAR

Do you use your car for business? Do you call on customers or drive to appointments? Well let me show you how with just a little bit of planning you can get your gas for free, courtesy of the IRS.

In the US, there are two ways the IRS allows you to deduct your vehicle. The easier and more conservative one is called the IRS method. (The other method, called the actual method is discussed at the end of this section.)

IRS METHOD (THE EASIEST ONE)

The government gives you a $0.56 deduction (2013's rate is $0.56 ½) for every mile you drive for legitimate business purposes (defined later in this article).

EXAMPLE (I am going to make a few assumptions.)

1. You drive a car that gets 20mpg
2. So if you drive 20 miles you will use 1 gallon of gas.
3. Gas costs an average of $3.50/gal

CONCLUSION: it costs you $3.50 to drive 20 miles.

If you drive those 20 miles for a legitimate business purpose, then the IRS gives you a deduction of $11.20 (20 miles x $0.56). Or in other words it lowers the amount of income you have to pay taxes on by $11.20.

To find out how much that saves you in taxes at the end of the year all you need to do is multiply it by your tax bracket. We will use an average tax bracket of 35% (includes state and federal) for this example. That means that you saved $3.92 on your taxes ($11.20 deduction x 35%).

CONCLUSION: You actually made $0.42 net cash driving 20 miles.

Over time that can add up to a lot of money. If you drove 15,000 miles you would save nearly $3,000 for the year. Can you see that when you are using your car for business it costs you nothing? You are getting your gas for free.

HOW TO QUALIFY

Contrary to popular belief, the IRS can be pretty reasonable. They offer you a deduction, BUT they want you to keep a record of all your business mileage for which they are giving you credit for at the end of the year. Sounds pretty fair.

WHAT PROOF DO THEY REQUIRE?

1. The total mileage of the trip
2. The date of the trip
3. The reason it should be considered business-related mileage

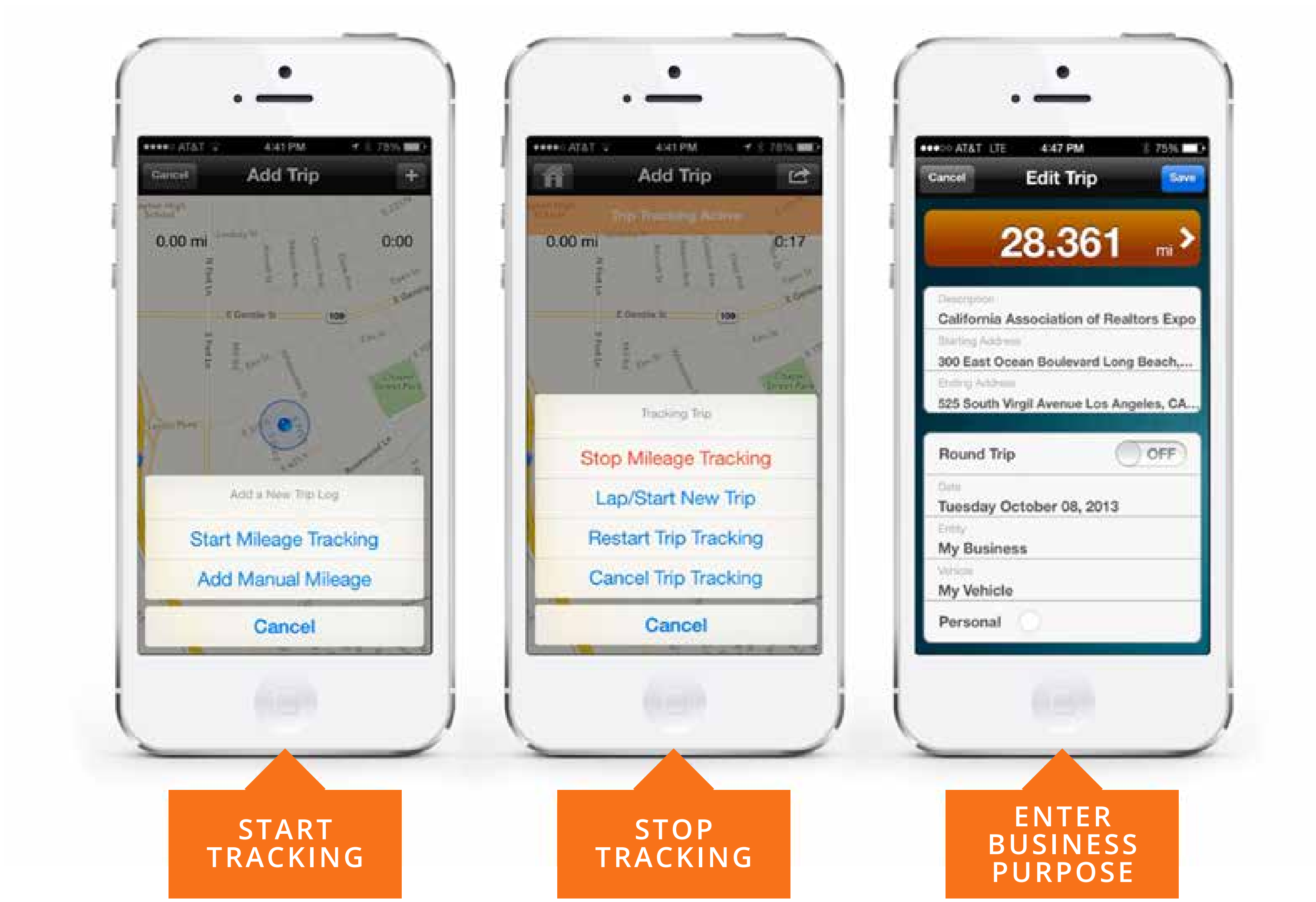
EXAMPLE

Date:	12-22-13
Total mileage:	15 miles
Business purpose:	Met with Jim Smith to discuss new order

For decades smart business people kept a clipboard in their car so they could write down this information every time they got into their car. Otherwise, they would forget and end up guessing at the end of the year which would open them up to tax fraud. Recording mileage is tedious, but well worth it.

TECHNOLOGY HAS MADE IT SO MUCH EASIER

Taxbot allows you to track your mileage using the GPS in your smartphone. All you have to do is hit start trip when you leave and end trip when you arrive, and the mileage is recorded for you. The app asks you to fill in all of the required information, and you are tax compliant.



THE ACTUAL METHOD

There is another method for deducting your car called the actual method. It is calculated just like its name implies. At the end of the year simply calculate the total costs for driving your car. Then you multiply that sum by the percent of the miles you drove for business compared to the total mileage.

Notice you still have to keep track of your mileage in this case too.

EXAMPLE

TOTAL MILES DRIVEN FOR YEAR	**24,000**
TOTAL MILES DRIVEN FOR BUSINESS	**22,000**
BUSINESS USE PERCENTAGE	**92%**

	TOTAL COSTS
GAS AND OIL CHANGES	**$4,992**
INSURANCE	**$1,200**
REPAIRS AND MAINTENANCE	**$1,200**
TAGS AND LICENSES	**$150**
WASH AND WAX	**$230**
OTHER	**$50**
TOTAL OPERATING EXPENSES	**$7,822**
MULTIPLIED BY BUSINESS USE	**92%**
DEDUCTION	**$7,196.24**
ADD IN DEPRECIATION	**$2,815**
TOTAL DEDUCTION	**$10,011.24**

Now remember that a deduction doesn't equal cash. Let's assume you are in the 35% tax bracket.

Your cash saved at the end of the year is 35% of $10,011.24 = $3,503.40

WHAT IS CONSIDERED BUSINESS MILEAGE?

In both the IRS and the actual method of deducting your car, you need to keep track of your business mileage. The IRS DEMANDS that you keep a mileage log.

> ***When you sign your tax return you do so under "penalty of perjury" that you have the back up information to prove it!***

The IRS does not mess around when it comes to automobile deductions. It is the #1 audited business deduction. It can also be one of the most lucrative ones. So let's talk about what is considered business mileage.

FIRST YOU NEED TO ANSWER ONE QUESTION…

Is your principal place of business your home or is it an office that you commute to? If you are not sure check out ***chapter 4*** on ***home office deductions***.

OPTION 1
HOME OFFICE AS PRINCIPAL PLACE OF BUSINESS
If your home is your principle place of business (as defined in the section on home office), then all business stops from your home are deductible! So trips to the bank, clients, office supply store, etc. are all deductible.

There is one major exception. If you have a regular job in addition to your own business then the direct commute to your job is NOT deductible.

OPTION 2
YOU COMMUTE TO YOUR MAIN OFFICE
If your principal place of business is an office other than your home, then a direct commute from your home to your office is not deductible. However, with some planning you can turn it into a deduction by making some temporary business stops on the way to the office.

DEFINITION
TEMPORARY BUSINESS STOP
A stop that you do not make regularly and that you will not be visiting frequently for more than a year. Since you are expected to go to the bank or post office regularly for years to come this is not a temporary business stop. However, visiting a client or prospect would be considered a temporary stop.

SO, LET'S GO THROUGH A FEW EXAMPLES

EXAMPLE 1

You go from your home to meet a prospect somewhere other than your office, which is your principle place of business. Then you go to stops A, B, and C (all related to your business) and then into the office. All of your mileage would be deductible since meeting the prospect was a temporary stop.

EXAMPLE 2

You leave your house and go to the post office. Then you proceed to A, B, and C and then to the office. Your trip to the post office would not be deductible because it's a regular business stop and not temporary. However, all the mileage after that would be deductible.

TRIPS OUTSIDE YOUR METRO AREA

If you make legitimate business stops outside of your normal business area, then all round-trip mileage is deductible as long as you will not be there more than a year.

EXAMPLE

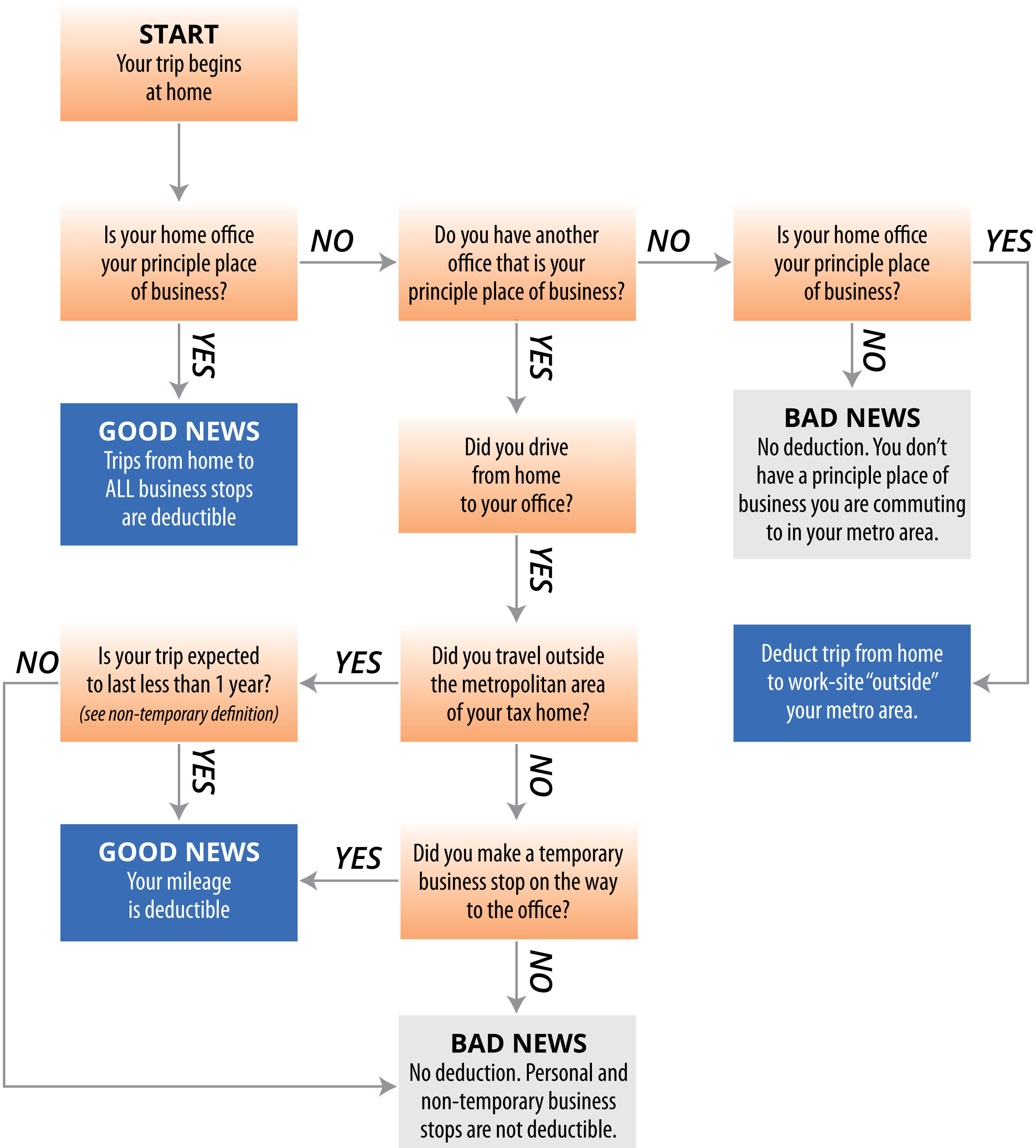
You live in Denver but attend a convention in Salt Lake City. All the mileage to that convention would be deductible since it's outside of your normal geographic area of business. However, if you were stationed in Salt Lake City for a project that is expected to last more than a year then the mileage wouldn't be deductible.

TURN MILEAGE INTO BUSINESS MILEAGE

Successful business owners know that there are opportunities everywhere for those willing to find them. You might want to learn to mix business with pleasure. For example, let's say you want to drive across town to visit your mom.

Visiting your mom is not a business trip. However, ask yourself, "do I have a client or a prospect near my mothers house?" If you do, set up an appointment and do a little business on the way there or back. The mileage to and from the client could now become deductible. So, only the portion of the trip from the client to your mom's house is personal. You just saved some money.

IS MY MILEAGE DEDUCTIBLE?



TIP #2
MEALS THAT MAKE YOU MONEY

Sharing a meal with a prospect or a client can be a great way to grow your business. For centuries people have used this technique. But did you know that many of your meals could be tax-deductible?

Let me ask you a serious question. Who is a potential prospect for your business? Who can give you referrals? The answer is everyone! So if you follow the rules we will show you, you will be able to deduct many of the meals you eat out.

THE IRS ALLOWS YOU TO DEDUCT 50% OF MEALS

If you take a client out and spend $100 on a nice steak dinner, and you follow the rules outlined below, then you could deduct $50 of the meal. Remember if you are in the 35% tax bracket then this will save you $17.50 in cash at the end of the year ($50 x 35%).

How do you know if your meal qualifies as a deduction? This subject can be confusing, so lets turn you into an expert right now. There are some simple rules to help you differentiate;

RULES FOR DEDUCTING MEALS

- You must have the appointment set up in advance and whomever you are eating with must expect to talk about business.
- You must talk about business before, during, or after the meal.
- You must eat in a place that is easy to talk about business.
- The expense must be recorded soon after the meal.

WHAT DO YOU NEED TO PROVE IT?

To prove to the IRS that your meal is deductible, you MUST record what we call the 4 W's and the H.

- Who did you take out to eat? *(write down their full name)*
- What was the expense? *(business meal)*
- Where did you eat? *(name of restaurant)*
- Why should this be considered a business meal?
  (Be specific, for example: asked for referrals, discussed a specific product, etc.)
- How much did the meal cost? *(enter the full amount including the tip)*

As you can see, there is a lot of information that is not available on your credit card statement. Many business owners write on each receipt who they met with and the notes for their business discussion.

BUT WHAT HAPPENS WHEN THOSE RECEIPTS FADE?

A lot of receipts fade, especially the ones on thermal paper. Make sure you keep a digital copy of those receipts by scanning a copy of them.

TAXBOT MAKES IT EASY

If you are using **TAXBOT**, then all you have to do is snap a picture and then answer the questions the app asks to ensure your compliance.

NOTE

If you have unrealistically high meal deductions, the IRS can disallow it using what they call the Sutter Rule. For example, if you have more business meal deductions than you have regular meals then you are probably going to have those meals disallowed.

EXCEPTIONS TO THE 50% RULE

EATING OUT WITH YOUR SPOUSE

Unfortunately, you cannot deduct eating out with your spouse. Even if they are your business partner and you discuss business, the IRS has disallowed this deduction.

There are a few exceptions though. If you go out with a client or prospect and they bring a significant other, you can bring your spouse or companion and deduct 50% of your companion's meal. However, if the client or prospect doesn't bring a significant other, then your significant other's portion of the meal is not deductible.

EATING AT HOME WITH CLIENTS OR PROSPECTS

If you conduct a sales presentation or a seminar from your home (a lot of home based businesses do this) then you can qualify for a 100% write off of the food if you follow a few simple rules. You still have to prove to the IRS that the gathering was business-related and there was a business discussion.

You should document your visitors and your discussions with them. It's easier to document this if you keep these events to fewer than 12 people. It is more likely you discussed business with 12 people than 36 people.

If you want to have a bigger dinner, display pictures of products or services on your walls or table. Make sure you take pictures so you have proof that you had prominent displays. Alternatively, you can send invitations that clearly state the business purpose of the meeting. Keep an invitation for your records in case of an audit.

If you are using Taxbot, simply add a category for "Eating at Home." Then add an expense with the documentation of the food costs. Since you can only attach one picture to each expense in Taxbot, we suggest you add a second expense and attach a picture of the displays at the party or the invitations. Just leave the expense amount at zero and put "proof" in the description.

NOTE

Never combine personal and business parties. For example, don't invite clients over for your kids' birthday party and expect to deduct the party.

TIP #3

DOUBLE YOUR FUN WITH ENTERTAINMENT DEDUCTIONS

What do you do for fun? Do you go to movies, sporting events, plays, or golf? Well the only thing better than doing something you love is writing it off! That way you get your fun and you save money!

The IRS allows you to write off entertainment if you are using it to grow your business and if you follow the rules.

ASSOCIATED ENTERTAINMENT

The IRS uses a fancy term for fun called "associated entertainment." But for our purposes think of it as fun. If you follow the rules then you can deduct 50% of the cost of your fun and 50% of the cost of your client or prospects fun if you pay for them.

THE RULES

1. You must bundle your fun activity with a serious business discussion before or after the fun.
2. The discussion must happen in the same 24-hour day as the fun.
3. The discussion must happen in a place conducive to business (i.e. talking business during a loud rock concert would not be conducive to business. However, if you went to dinner before hand and had a business discussion then you could go to the rock concert after and get the deduction).

WHAT DO I NEED TO PROVE IT?

To prove to the IRS that your meal is deductible, you MUST record what we call the 4 Ws and the H.

- Who did you take out for the fun? *(write down their full name)*
- What type of entertainment? *(movies, golf, etc)*
- Where did you go? *(name the restaurant)*
- Why should this be considered a business expense? *(Be specific about your discussion before or after the entertainment. For example: asked for referrals before the game and discussed introductions, etc.)*
- How much did the entertainment cost? *(enter the full amount)*

You do not need a receipt for expenses that are under $75, but it is a very good idea to keep them anyway.

As you can see, there is a lot of information that is not available on your credit card statement. Many business owners write on each receipt who they met with and the notes for their business discussion.

TAXBOT MAKES IT EASY

If you are using **TAXBOT**, then all you have to do is snap a picture and then answer the questions the app asks to ensure your compliance!

CALCULATING DEDUCTIONS

Entertainment expenses are 50% deductible. So if you go golfing, after a business meal, and you spend $65 for 2 rounds with a cart, you can deduct 50% or $32.50.

If you have season tickets to an event, then each event must be considered its own deductible event. If you take someone to an event and the ticket has a face value of $40, you can deduct $20.

You must be present at the event in order to deduct it as entertainment. For information on how you can deduct the tickets if you are not available to be there, please see the chapter on business gifts in the Education Library of your online account.

ENTERTAIN IN YOUR HOME

Your home is the #1 overlooked deduction by self-employed people. We covered this a little under our meals chapter. In case you haven't read that chapter, we will review the rules.

- The primary purpose of the entertainment or meal must be business
- There is no limit to the length of time the business discussion needs to be.
- It is best to keep business parties to fewer than 12 people (it is just easier to document and prove).
- Never combine personal and business events. Don't invite clients to your son's party to deduct the food, it won't work.

EXCEPTIONS TO THE 50% DEDUCTION RULE

There are a few exceptions to the entertainment rule that allow you to deduct 100% of your expense. They are outlined below.

EMPLOYEE OUTINGS

can be deductible if you follow a few additional rules;

- All employees must be invited.
- The outing should be primarily for employees, not owners and their families

BUSINESS PROMOTION OR RESEARCH

This is a little trickier. For example: If you are a travel agent and you go golfing at a course to see if you would recommend it to clients, it can be 100% deductible. If you think you might qualify then talk to your CPA or tax preparer to get their opinion.

CHARITY EVENTS

If you buy tickets to a charity event, you are not limited to the face value of the ticket(s). But, there are 3 rules that must apply:

- It must be for the primary purpose of benefiting a tax-exempt charity.
- All of the proceeds go to the charity.
- The event uses volunteers for the work performed.

TIP #4
HOME OFFICE - A TAX DEDUCTION GOLDMINE

One of the least understood tax deductions that many small business owners qualify for is the home office deduction. If you qualify, the home office is a catalyst that can bring you deductions on many things that you never thought possible.

THE QUICK AND DIRTY METHOD

In January 2013, the IRS created a very simple way to claim a home office. You still have to qualify (which we will discuss later), but if you do qualify then you get a deduction of $5/sq. ft. of your home office. (This method is capped at 300 sq. ft. for a total deduction of $1,500.)

EXAMPLE
If you have one room in your house and it is 12' x 12' in dimension then you have 144 sq. ft. Multiply that by $5 per foot and your deduction is $720. Remember the deduction is not cash. To find out the cash savings let's assume a 35% tax bracket.

$720 x 35% = $252 cash savings

THE MORE PROFITABLE WAY TO DEDUCT YOUR HOME OFFICE

Let me show you another way to deduct your home office. It has the same qualification requirements as the quick and dirty method but it is calculated differently and it can be much more profitable.

If you qualify then you can deduct a portion of all expenses relating to your home office including:

- Mortgage interest *(The deduction is better as a business deduction than it is as an itemized one on your tax return)*
- Rent *(if you don't own your home)*
- Utilities
- General repairs
- Lawn care
- Homeowners insurance
- Real estate taxes
- Depreciation of your home

A legitimate home office can also increase your vehicle deductions significantly. I know that seems like it's unrelated but it's true. For more information see the chapter on vehicle deductions. But first read on to find out if you qualify for the home office deduction.

THE BASICS

Let's assume that you have a qualified home office (discussed below) that makes up 15% of your total square footage of your home. This means that 15% of many of your current expenses associated with your home can be deducted.

EXAMPLE

	TOTAL	HOME OFFICE DEDUCTION (15%)
MORTGAGE INTEREST	**$10,000**	**$1,500**
REAL ESTATE TAXES	**$1,200**	**$180**
UTILITIES	**$4,800**	**$720**
HOMEOWNERS INSURANCE	**$500**	**$75**
GENERAL REPAIRS	**$500**	**$75**
LAWN CARE / PEST CONTROL	**$400**	**$60**
OFFICE REPAIRS	**$200**	**$30**
TOTAL	**$17,600**	**$2,640**

In this case you would get a $2,640 deduction. If you were in the 35% tax bracket then would save you $924 on your tax bill at the end of the year!

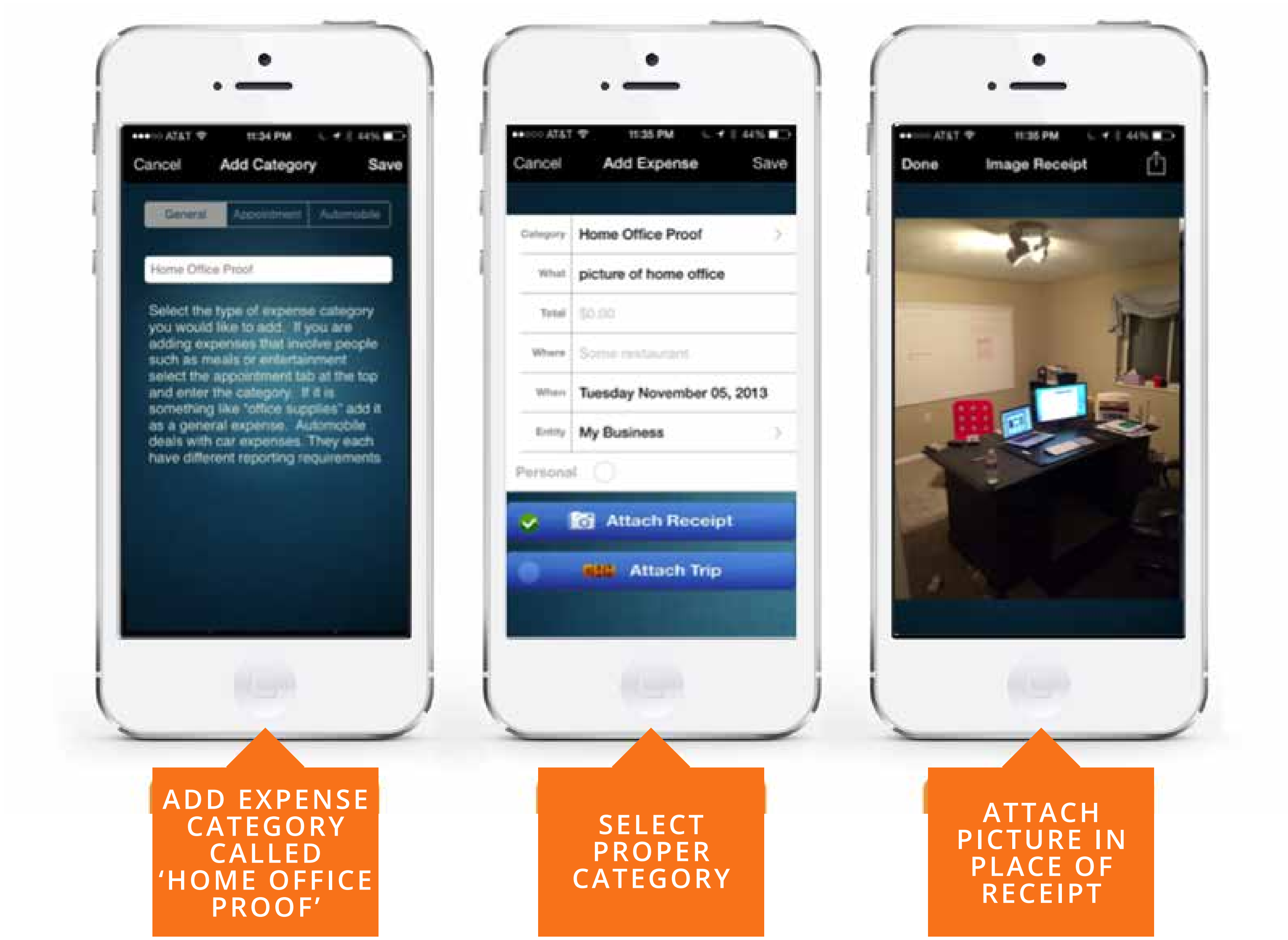
$2,640 x 35% tax bracket = $924 cash savings

Every home office is different. You will need to figure this out for yourself by taking the square footage of your home office and divide it by the total square footage of your home.

Home office square footage ÷ Total square footage of home
= home office deduction percentage.

PROVE IT WITH A PICTURE

If you get audited, you will have to prove that you had a home office used for business. We suggest you take a picture of your home office and store it in Taxbot for future proof. Make sure you don't have anything in the office that is not business related.



MYTHS

Let me dispel a myth about claiming a home office. Have you heard that, "claiming a home office is a red flag that will increase your chance of an audit?" I don't know where this rumor started but it is absolutely not true. One long-term study we participated in showed no significant increase in a chance of an audit when claiming a home office.

THE ONE LIMITATION

One of the bad things about a home office deduction is that it cannot be used in the same year to create a loss in your business. So if your business has a net profit of $2,000 and your home office deduction is $2,400 then you can only use $2,000 of it that year and the other $400 can be carried over to another year.

DO YOU QUALIFY?

There are 3 qualifications you must meet in order to qualify for a home office deduction.

1. You have a clearly defined portion of the home that you use EXCLUSIVELY for your business. This means you don't use it for anything else. You can't use your pool table as your desk in the recreational room unless you never use the pool table except as your desk for business.

2. It is your principal place of business. In other words, you do most of your administrative and management tasks from home.

3. You work regularly out of your home office. This means you work 4-5 days a week for stretches of 45 minutes to an hour each time. It is very important that you work regularly on your business. The IRS doesn't like to see someone working 8 hours a day every couple of weeks. They can disallow your deductions and classify you as a hobby instead of a business.

Thus if you have a home based business but only work on it once every couple of weeks, you will not qualify for the home office deduction.

DEPRECIATE YOUR HOME

If you claim a home office you can also depreciate your home office. If you know how much depreciation can be, you know that this could be significant from a tax savings perspective.

It's true that you will have to pay some tax on any amount that you have depreciated, when you sell your home. For example, if you depreciated $10,000 on your home then you will have to pay taxes on that $10,000 when you sell it.

By depreciating the home office you can invest that money. Chances are you can do better investing that money than you can giving it to the government.

If you don't understand what depreciation is please talk to an accountant. It is too deep a subject for us to address in this article.

TIP #6
GIVE GIFTS AT DISCOUNT PRICES

As the holidays approach, many businesses give gift baskets and other trinkets away to clients and prospects to say thank you or to help drum up more business. What can you give away in your business?

THE $25 LIMIT

As a business you can deduct 100% of gifts given to business associates. The catch is that it caps out at $25 per person each year. So if you give John, a new client, a Christmas gift that cost you $100 then you can only deduct $25. That is a very low limit.

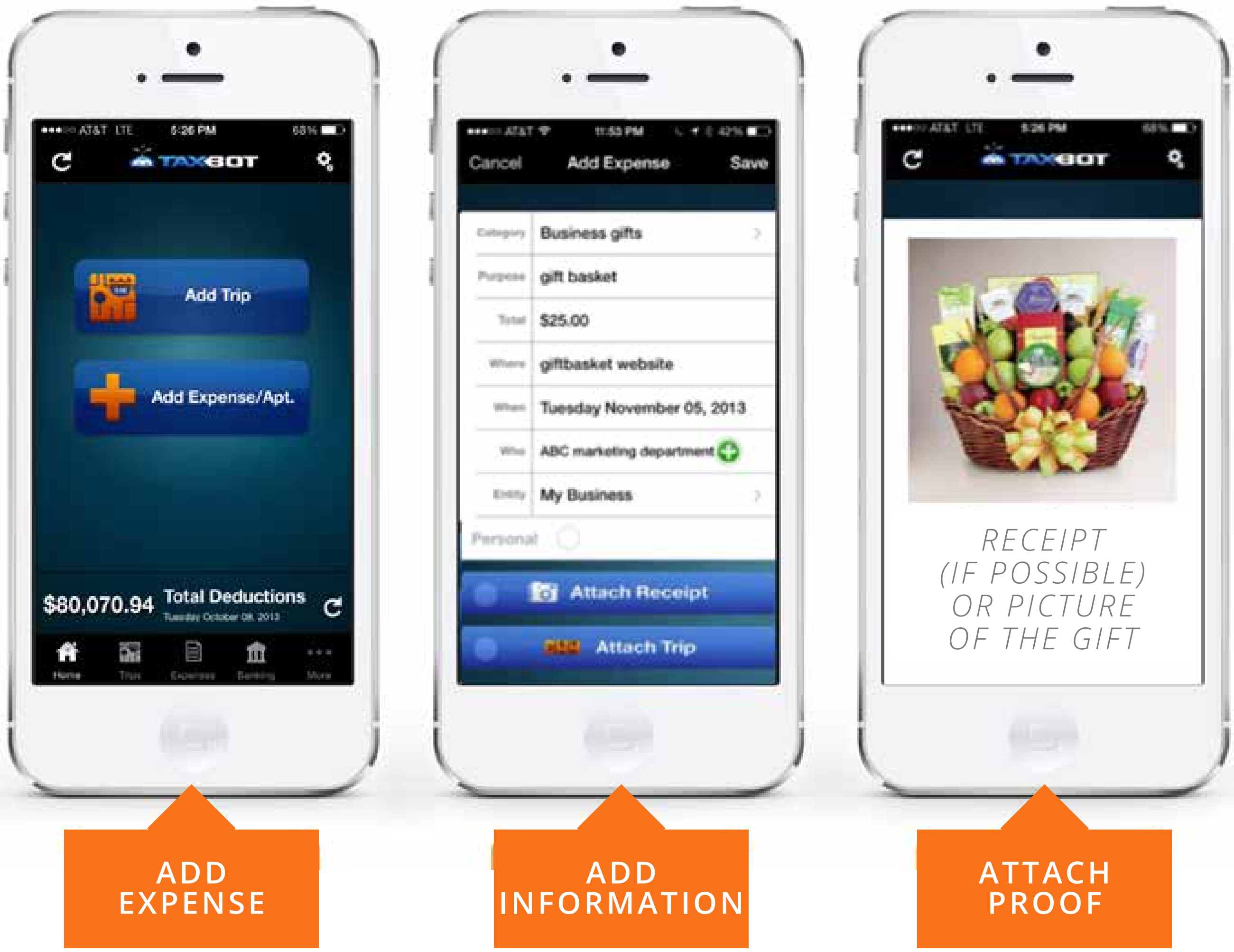
TWO WAYS AROUND THE LIMIT

So what can you do if you have a client who is very important or to whom you want to do something special above the $25 limit and still get a good deduction?

> **GIVE THE GIFT TO AN ORGANIZATION RATHER THAN AN INDIVIDUAL.**
> Rather than give a gift to the VP of marketing at XYZ Company. Give the gift to the entire Marketing Department. If you are not giving the gift to a specific individual then you can deduct 100% of the cost.
>
> **GIVE GIFTS OF ENTERTAINMENT IN PLACE OF PHYSICAL GIFTS.**
> If you take a client out to a show or to a sporting event then you write it off as entertainment rather than as a gift. Just make sure you follow the rules for entertaining outlined in the entertainment chapter.

If you are in an industry such as real estate or insurance that limits gifts make sure you comply with all state and federal laws.

TAXBOT MAKES IT EASY



TIP #7
HIRE YOUR KIDS FOR BIG SAVINGS

Do you have kids? Does it seem like there is always a hand extended asking for money for this or that? Kids can be expensive. But we love our kids so we are happy to spend the money for things they want and need.

Do you catch yourself wishing you could find a pot of gold so you could help cover the costs of many of their activities? Hopefully we can show you how you can save big starting this year.

HIRE YOUR KIDS

Seriously. If you own your business, there are things your kids can do for you. Here are a few examples:

- File paperwork
- Clean the office
- Lick envelopes
- Drop off flyers or brochures
- Manage your social media
- Email clients
- Answer phones

...and much more!

If you were to put an advertisement online or in a newspaper and hire an employee, wouldn't that be a deductible expense? Well, why not hire your kids instead. Most parents just fork over $50.00 to Jonny for his video games or $75.00 for Sara's dance lessons.

Smart business owners realize that if their kids do necessary work for their business, they can be paid a reasonable wage and pay for things themselves. This way you get to deduct the wages. It's the same money, only in this case you get to deduct the cost and in the other case, you pay full price! Not to mention, your kids are earning the money!

EXAMPLE

Your 16 year old daughter Sarah wants to take dance lessons that cost $150.00 per month. In the past, you have faithfully paid $1,800 a year for the lessons. But, if you hire her to file paperwork and manage your social media and pay her a reasonable wage, she can pay for her own lessons.

If she makes $1,800 that year and you get to deduct it, then you come out ahead. Let's assume you are in a 35% tax bracket:

$1,800 x 35% tax bracket = $630 cash savings!

THE RULES

1. Your children must be age 7 or older. The benefit here is you can hire your younger kids without worrying about child labor laws.
2. You must pay them a reasonable wage. You cannot pay your kid $100/hour to do work that you could hire out for $15/hour.
3. You must have meticulous time sheets and records of what they did to earn their money.
4. If you pay your child more than $6,100 a year, then they must pay taxes. Make sure you set this up with an accountant to ensure you are compliant.
5. They must file their own tax return (or rather you must file one for them).

THE FIRST $6,100 IS TAX FREE

If your child earns less than $6,100 in 2013, they don't have to pay any taxes because they will qualify for a personal exemption on their own tax return. If you pay them more than $6,100 in a given year, then you must pay unemployment taxes and federal and state income taxes.

PERSONAL STORY

My daughter was in college majoring in digital design. I decided I wanted to build a new website for my business and I had a professional web design firm quote me on doing the work. Their bid at the time came in at $40,000.

I approached my daughter, who definitely had the skill set to build my website (an important factor in justifying the hire), and asked her if she could build it for slightly less than the professional design firm. She agreed and I paid her enough money to cover 2 years worth of tuition and room and board!

I saved more than $15,000 in taxes by hiring my daughter rather than paying for her education outright.

TAXBOT HELPS YOU STORE THE INFO

When payroll time comes, make sure you create a new category in Taxbot for your child's payroll expense. Then when you pay them make sure you take a picture of their time sheet so you have a digital record you can pull if you get audited.

TIP #8
TURNING YOUR TRAVEL INTO TAX-DEDUCTIBLE EXPENSES

One of the huge advantages of being in a high demand business, such as real estate, network marketing, or travel is that you can get customers almost anywhere. With a little planning and proper documentation, you could deduct trips anywhere in the world.

There are two types of travel days. The days you are actually traveling, and the business days in the middle. Both can qualify you for some deductions, but there are some rules and definitions you need to understand first.

TWO TYPES OF TRAVEL EXPENSES

When you are traveling, there are two types of expenses: 1. living expenses which we call “on the road expenses”; and 2. actual “transportation” expenses (like airfare). To find out if your travel expenses are deductible, we need to first understand a few terms.

ON THE ROAD EXPENSES

These types of expenses are the costs involved in sustaining life (like food and shelter). These costs are deductible, ONLY if you are either on “travel status” and/or having a “business day” while on your trip.

TRAVEL STATUS

You can consider it a business trip if you are sleeping away from your home for a business reason or for a period of time sufficient to require sleep.

BUSINESS DAY

IRS says that if you conduct business and are meeting with someone for a bona fide business reason, the whole day is a business day regardless of the time spent.

Thus, if you are meeting with a client or prospect, the whole day will be considered a business day even if the meeting takes only an hour or two.

BUSINESS DAY EXCEPTIONS

Convention or seminar days have one more requirement. If the purpose for your trip is a convention or seminar then you MUST attend meetings for 4 hours and one second for that day to be considered a business day.

Weekends can be considered business days if you sandwich business days before and after the weekend. Thus, if you have a business day on Friday and one on Monday then Saturday and Sundays are considered business days no matter what you do on the weekend.

Alternatively, if you can show you stayed over a Saturday night in order to save on airfare you can consider the weekend business days. The only thing is that you have to prove that the extra cost for your room and board was less than what you would have spent on travel if you didn't stay the weekend.

WHAT CAN YOU DEDUCT WHEN YOUR DAY QUALIFIES AS A "BUSINESS DAY?"

You can deduct 50% of your food costs. You can also deduct 100% of your lodging, shoeshines, laundry and dry cleaning for each day that you conduct business.

EXAMPLE

Assume that you live in Washington DC and fly to New York City in the morning for a meeting and return that evening. You are NOT deemed to be on travel status since you didn't stay overnight on business. On this trip, you would only be allowed to deduct your transportation and not the on the road expenses like food.

However, if you had flown to New York City and then caught a return flight the next day, you would qualify to deduct all your on the road expenses like food.

REQUIRED DOCUMENTATION FOR A BUSINESS DAY

You must show that you had a pre-arranged meeting at a pre-arranged destination with someone that qualifies your day as a business day.

Thus, you should keep a paper trail such as emails or letters establishing that your intent for the trip was business. You are also required to document that the meeting happened and what was discussed.

TAXBOT MAKES IT EASY

With **TAXBOT** you can record that you had your meeting as well as what was discussed by just adding an expense or an appointment and answering the IRS questions the app asks.

Note: Taxbot doesn't prove that you had the meeting set up in advance, so you may still need to provide proof in an audit. Keep your emails!

RECEIPT RULE

Although I generally recommend keeping all receipts for travel, the IRS doesn't require receipts for expenses under $75 per day (with the exception of overnight lodging expenses).

TRANSPORTATION EXPENSES

The actual cost of the transportation such as airfare, taxis, rental cars, etc. can be deductible.

I want to make one point clear, in order to deduct any transportation your primary purpose for the trip must be for business. This is where the "rubber meets the road." You can have some incidental personal reasons for going on your trip, such as seeing your mom, but the primary purpose must be for business.

This requires several items of proof, but the main requirement is that you have business appointments set up BEFORE you go on your trip! You can always add some later on, but you must have some preexisting appointments.

TRANSPORTATION COSTS FOR U.S. BUSINESS TRIPS

If your primary purpose for the trip was for business, you can deduct all of your transportation costs if more than 50% of the total days away from home qualify as business days. If you don't meet this criteria then you don't get a deduction for the transportation!

FOREIGN TRAVEL TRANSPORTATION EXPENSES

Looking to get out of the country? Deducting those expensive airplane tickets could save you a lot of money. It's like getting discounted airfare! But as always, planning is the key. Part of the planning depends on how long your trip is.

TRIPS LESS THAN 7 DAYS

If your trip is less than one week and you are back in the U.S. in less than 7 days, including the days you are traveling, then you may deduct 100% of the transportation costs even if you have only one business day where you actually do work!

This is known as the exciting one-week loophole that many tax professionals don't even know.

TRIPS LONGER THAN 7 DAYS

Is your trip longer than a week? If your "business days" represent 75% or more of the total trip time then you can deduct 100% of your transportation costs.

THE FINAL OPTION

If you fail to meet either one of the above options, your transportation costs are deductible based on the percentage of business days. For example, if your trip was 10 days but only 3 days were business days, then 30% (3/10) of the transportation costs can be deductible.

CONVENTION OR SEMINAR TRIPS

If you are on a trip for a convention or seminar, the deduction rules will depend if the convention or seminar is outside a "defined North American area." This includes anywhere in North America. In addition this also includes:

- Jamaica
- Costa Rica
- Saint Lucia
- Palau
- Jarvis Island
- Barbados
- Dominica
- Trinidad
- Marshall Islands
- Kingdom Reef
- Granada
- Honduras
- Tobago
- Johnston Island
- Federated States of Micronesia

If you attend a convention within these areas and you spend over 50% of your total days qualify as business days then 100% of the transportation costs would be deductible.

If, however, you are attending conventions or seminars outside of these areas, in addition to meeting the tests in the foreign travel rule, you must have a "reasonable basis" for meeting in this area.

Thus, if all the U.S. distributors of a company meet in France, it probably wouldn't be reasonable to meet there since they do their business in the U.S. However, if there is a worldwide meeting including European distributors, then meeting in France might qualify as reasonable.

SPECIAL TYPES OF TRIPS THAT CAN RESULT IN BUSINESS DAYS

The IRS says that if you visit colleagues to improve your skills or set up referrals, the trip could be for business.

In addition, any education for your business would be deductible, anywhere in North America, even if you can take the same course where you live. You don't need to take the course where you live.

Moreover, job-hunting trips are deductible as long as you are looking for a position in the same trade or business that you are in.

TAXBOT TIP

If you are in the travel business and are legitimately trying to sell travel and/or cruises and can fully document your sales efforts, you may be able to deduct "familiarization trips" otherwise known as "fam trips." However, you must really be selling travel, or vacation packages or cruise trips to customers in order to take advantage of this. The more you retail these packages, the better your argument that you need to take a "fam trip" in order to recommend these to you customers.

FOR MORE IN TRAVEL TAX INFORMATION

This should give you a great overview of the travel rules. For more in-depth information, visit the Education Library in your online account at ***www.taxbot.com*** or get my audio or video series, "Tax Strategies for Business Professionals" or get my book, "Lower Your Taxes: Big Time."

TIP #9
DEDUCTING THE TOOLS OF YOUR TRADE

Generally, all businesses require tools for success. They range from construction tools to computers and printers. Uncle Sam lets you deduct equipment that you need for your business.

To make this expense election, the tools (such as computers) must be new to you. It doesn't need to be new equipment - it just needs to be new to you.

TWO METHODS TO DEDUCT TOOLS

DEPRECIATION

Normally you get to write off a percentage of the cost each year over a specified time period. This is called depreciation and the IRS publishes rules for different types of equipment.

For example, IRS says that most hand tools can be written off over a 7-year period while computers and printers can be written off over 5 years.

EXAMPLE

Assume you buy a new computer that you are going to use 100% for your business. The cost of the computer was $1,000. According to the IRS, if you deduct the cost you must do it over 5 years. So this means that you can deduct $1,000/5 years = $200 per year for each of the next 5 years.

SECTION 179 DEDUCTIONS

One of the best depreciation options the IRS provides is the Section 179 deduction. You don't need to know what the name of it means. All you need to know is that it allows you to write off 100% of equipment in the year you purchase it rather than over time.

There are limits to this deduction though and it changes every year. For example, in 2013 the limit is $500,000 per year but if congress doesn't renew this limit it automatically drops all the way down to $25,000 for 2014.

EXAMPLE

Let’s say you bought the same computer above for $1,000. If you use the 179 deductions then you can deduct $1,000 this year rather than the $200/year over 5 years. That means you get your cash savings earlier!

Also, you don’t need to pay cash for the equipment in order to write it off in one year. If the equipment is financed, you still get the deduction for the whole purchase price.

SANDY’S TIP

Off the shelf software and business applications for your smart phone such as Taxbot can be written off in the year that you pay for it. You don’t need to depreciate such items.

NOTE

If you plan on buying a considerable amount of equipment this year, there are other things you need to consider. Please talk to a competent accountant first.

TIP #10

MEDICAL EXPENSES ARE LESS PAINFUL WITH A DEDUCTION

There seems to be a lot of misunderstanding regarding medical expenses these days. So lets see if we can make it a little bit clearer.

There are two rules for deducting medical expenses. One is for health insurance premiums and the other is for deducting medical expenses or procedures.

Health insurance premiums are fully deductible if you are self employed. However, there are a few small rules.

1 You cannot claim the deduction for any month in which you or your spouse were eligible to participate in any employer provided health plan. So if you are self-employed but your spouse's job makes you eligible to receive health insurance then you cannot deduct any extra premiums you might have.

2 Deducting your premiums cannot create a loss in your business. If your business generates a loss, that is to say your deductions are greater than your revenues, then you cannot deduct your premiums.

3 If you are in a partnership or an LLC with other members and are taxed as a partnership, and you pay for your own health insurance premiums, you can claim a deduction. However, if the partnership or the LLC pays for the premiums then there are special tax reporting rules and you should talk to your accountant about them. You still have to meet the two rules above.

Medical expenses and procedures however are not automatically deductible. They also have a few rules. Normally they are not deductible unless the expenses are greater than 10% of your adjusted gross income.

For most people this is not realistic. This means if your income was $50,000, then in order for anything to be deductible, the expenses would have to exceed $5,000 for the year.

OTHER RULES

- The expense must treat a medical condition or illness. If you wanted a nose job just to look differently, this would not qualify.
- Over the counter drugs can be qualified if you get a doctors prescription for them.

BOTTOM LINE

You must have a lot of medical expenses in a single year to qualify. However, there is a better way to deduct medical expenses.

AVOIDING THE THRESHOLD RULES

The HSA Account: This is like a special bank account that you can deposit money into tax free that you only use to pay for medical expenses not covered by insurance. It can be used to pay deductible, co-insurance, braces for your kids, etc.

You must have a high deductible plan however and there are limits on how much you can contribute. We won't go into too much detail about them here but you should talk with your financial planner or your financial institution to evaluate your options.

Self Insured Medical Reimbursement Plan: This is a unique situation that could allow you to deduct medical expenses without the 10% threshold. You should seek the advice of a competent accountant to help you set this up. Here are the basics of how it works:

1. You hire your spouse in your business and make them the primary insured on the plan. *(Note: they must actually work for you and you must pay them a reasonable wage for what they do)*
2. Your spouse elects "family coverage" to cover you and dependents.
3. The business now pays for spouse's medical expenses and gets to deduct them. They are not being deducted as medical expenses. Instead they are deducted as a fringe benefit for your employees.

NOTE

A self-insured medical reimbursement plan must be non-discriminatory. Thus, if you have any full time employees who work for you over 25 hours a week, you must also cover them under the same plan. However, you can require employees to work for the business for up to 3 years before they would qualify.

The sum of the wages plus the medical expenses paid for through the plan must be reasonable. For example, if your spouse works 25 hours a week and you deduct $100,000 in medical expenses this would not be reasonable unless that was similar to a wage you would have to pay an outside agency to do the same work for you.

Please seek competent advice from a professional to see if you could qualify for one of these plans.

TIP #11
THE IRS AUDIT: THE BEST OFFENSE AND DEFENSE

AUDITS SKYROCKETING

IRS Agents are no longer limited to in person interviews. An agent can simply mail you a demand letter and you are required to send them your deduction records for whatever they ask for including your mileage logs, receipts, or your tax diary.

This means that an IRS agent can send out hundreds of letters at one time. If you are an independent contractor or own a business, you are as much as 700% more likely to be audited than the average tax payer and this percentage is probably going to go up now that agents don't have to be present.

NINE WAYS TO REDUCE YOUR CHANCE OF AN AUDIT

If you are like most people you have an inborn fear of the IRS audit. But as the saying goes, "if ye are prepared ye shall not fear!" Here are nine things you can do to help reduce your chance of an audit.

1. File your tax return electronically or send it in using registered mail/Fed Ex. The reason is that if the regional IRS center doesn't get your return then they might audit you to find out why! I strongly recommend your accountant files it electronically.

2. Make sure the IRS has your correct address. If you move, fill out IRS Form 8822, "Change of Address". Several years ago, USA Today reported that the IRS had $78 million in refunds, but they couldn't find those people.

NOTE

Maybe I am crazy, but if the situation was reversed and the IRS wanted money from you, don't you think they would find you? Filing a change of address is very important not only for refunds but in case IRS needs to send you an important notice.

If you move, you may be liable to the IRS without knowing it because you didn't provide a change of address. The IRS is only responsible for sending notices to the last known address of the taxpayer.

3 Make sure your tax return is neat. I met a person who thought that if the IRS couldn't read his return, they wouldn't audit him. This is absolutely false! The return must be neat and easy to read or the people who input the information into the IRS computers might input the wrong information which could trigger an audit.

4 Report all your income: IRS has implemented various sophisticated software programs to find people who don't report all their income. Make sure that your tax return reports all income you earned and identifies the income by source. Don't try to hide income from the IRS!

TAXBOT TIP

If you get a wrong Form 1099 or W-2, contact the company or person who sent the wrong form and ask for an amended form. If they won't do that (e.g. they are out of business) you still should report the full amount on a separate attached schedule and back out the amount that is incorrect, showing the reason for the error.

5 Have your return prepared by a competent tax preparer. Studies show that people who do their own tax return have over twice the error rate of that of a tax professional. The IRS knows this which means that if you do your own return, you could be increasing your chances of an audit; not to mention the competent tax professional probably knows more than you and might find you more deductions.

6 Break your income and large expenses into smaller segments: Break down large ticket items to explain to the examiners exactly what was involved in the expenses. For example; if you claim $25,000 of computer expenses, you would probably trigger an audit. However, if you attach an explanation showing that the $25,000 was comprised of computers for thirty new employees, then it looks reasonable.

7 Keep records of expert advice received: If you relied on the advice of your accountant or lawyer, keep records as to the nature and date of the advice. There are cases in which penalties have been waived for a good-faith reliance on an independent expert.

8 Don't die. The government in both U.S. and Canada audits about 68% of all final returns. The only good thing about dying is that you do not have to show up at the audit.

9 Be careful of what you tell other people: The IRS pays up to a 30% commission for people to rat on you. If you want to make a living reporting tax cheats, get IRS publication 733, "Rewards for Information Given to the Internal Revenue Service." Thus, don't tell people about what you are doing with your taxes. Even if you are doing everything correctly, if someone thinks you are cheating and reports it to the IRS, they might audit you! The top rats in the country are:

- Ex-spouses
- Disgruntled boy or girl friends
- Disgruntled employees
- Ex partners
- Competitors

WHAT TO DO IF AUDITED?

ASSUME THAT YOU WILL BE AUDITED WHENEVER YOU PREPARE YOUR RETURN

The time to get ready for an audit is when you are preparing your information for your tax preparer to do your tax return. Make sure you are organized so if you are audited in 6 years you can easily find and explain everything. Letters or memorandums from your accountant, if any, should support questionable items.

DON'T AVOID THE AUDIT

An audit notice doesn't mean that you did anything wrong! It is simply a request by the government to find out if your return was prepared correctly. Generally, you will be notified by mail. So don't skip town or do anything to get out of it. That makes you look guilty.

TRY TO LIMIT THE SCOPE OF THE AUDIT

The audit notice will tell you exactly what is being audited. Only bring the information that addresses these problems and nothing else. Otherwise, you might encourage a fishing expedition by the agent to look into other matters.

UNDERSTAND THAT THE BURDEN OF PROOF IS ON YOU

Tax law requires you to prove your deductions are valid. The IRS needs to prove nothing. You are not innocent until proven guilty here. Here is where using Taxbot shines in that proper use of it will meet that burden and reduce the time it will take for the audit.

DRESS NORMALLY FOR THE AUDIT

Don’t make a special trip to Goodwill Industries to buy dingy clothes. Don’t wear expensive clothes or expensive jewelry either. Examiners dislike people who look like they make a lot more money than they do. But they also don’t like people trying to look like a charity case.

BE ON TIME FOR THE AUDIT

Burn this point in your head. IRS and CRA examiners are graded on efficiency. If you are late for your appointment and cause the auditor to be inefficient or to take a longer time on the audit than he or she should, you start the audit off on the wrong foot.

Typically, an agent starts examining your return about a half-hour before the audit begins to see what the problems are. If you are late, you are giving them more time to evaluate your return. The best bet is to be early!

BE AND ACT ORGANIZED

Make sure that you are prepared to answer questions and deliver any required proof of deductions to the auditor. If you look or act disorganized, they will think that much of the return won’t have sufficient back up, which could result in a more in-depth audit. Also, better organization means a faster audit, which could bring this whole unpleasant task to a quick conclusion.

DON’T VOLUNTEER INFORMATION

Although I recommend that your accountant show up without you, sometimes your presence is necessary. If you attend an audit, you should NEVER elaborate on an answer. Keep your answers short and to the point. Finally be very careful what you say to an auditor. This information can be used in a subsequent criminal trial.

ASK FOR TAX LAW REFERENCES

If you think you are right ask the auditor or agent for the legal reference. Don’t accept vague statements or interpretations of the law. Make your tax advisor the goat by saying, “My accountant told me that this deduction was proper (assuming this was the case).“ Can you give me something to show that he’s wrong?”

DON’T BE ALONE WITH A SPECIAL AGENT

Special Agents are NOT special. Their job is to investigate criminal activities. If there are ever two agents to see you, ask whether either of them is a Special Agent. If so, terminate the meeting and seek out a good criminal tax lawyer. Many times it is easier for the government to get you on the crime of lying to an agent than on the crime itself.

HOT TIP

There is no privilege protecting your communication with your accountant on criminal matters. Accordingly, never hire an accountant to represent you in criminal cases unless they are lawyers too. In addition, you should probably terminate any communication with your accountant since anything said to them can be obtained by IRS in a criminal matter.

If you need to deal and communicate with your accountant, have your lawyer hire the accountant so that any future conversation is protected under the attorney-client privilege.

DON'T EVER TAMPER WITH THE EVIDENCE OR LIE TO AN AGENT

It is much easier for the government to get you on lying to an agent or tampering with evidence than on the crime itself. Thus, don't back date documents or intimidate witnesses.

TAX PLANNING IS WORTH IT'S WEIGHT IN GOLD

I hope that after reading this book you can see that owning your own business has some pretty amazing tax benefits, if you are legitimately pursuing a profit!

Tax planning isn't always the most exciting part of being in business, but it sure can save you a lot of money. So, make sure you take the time to meet with a competent tax professional and make your life a lot less taxing!

Thank you and good luck!

- Sandy Botkin, CPA, ESQ.

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