



# Tax Tips for Businesses

## ▼ Domestic Production Deduction

If your business is engaged in a qualifying production activity you may be able to take a tax deduction for your U.S. based business activities. The deduction is limited to income arising from qualified production activities in whole or in part based in the United States. The following are qualified production activities.

- Manufacturing based in the United States,
- Selling, leasing, or licensing items that have been manufactured in the United States,
- Selling, Leasing, or licensing motion pictures that have been produced in the United States,
- Construction services in the United States, including building and renovation of residential and commercial properties,
- Engineering and architectural services relating to a US-based construction project,
- Software development in the United States, including the development of video games.

If you have a business that falls into any of these categories and you are not looking at this deduction, you could be missing out on a valuable tax break. Contact us to see if this deduction is for you.

## ▼ Organizational and Start Up Costs

Have you just started a new business? Did you know expenses incurred before a business begins operations are not allowed as current deductions? Generally, these start up costs must be amortized over a period of 180 months beginning in the month in which the business begins. However, based on the current tax provisions, you may elect to deduct up to \$5,000 of business start-up and \$5,000 of organizational costs paid or incurred. The \$5,000 deduction is reduced by any start-up or organizational costs which exceed \$50,000. If you want to deduct a larger portion of your start up cost in the first year, a new business will want to begin operations as early as possible and hold off incurring some of those expenses until after business begins. Contact us to help determine how you can maximize your deduction for start-up and/or organizational expenses. For additional information on what costs constitute start-up or organizational expenses, refer to IRS publication 535, Business Expenses.

## ▼ Business or Hobby?

It is generally accepted that people prefer to make a living doing something they like. A hobby is an activity for which you do not expect to make a profit. If you do not carry on your business or investment activity to make a profit, there is a limit on the deductions you can take. You must include on your return income from an activity from which you do not expect to make a profit. An example of this type of activity is a hobby or a farm you operate mostly for recreation and pleasure. You cannot use a loss from the activity to offset other income. Activities you do as a hobby, or mainly for sport or recreation, come under this limit. So does an investment activity intended only to produce tax losses for the investors.



The limit on not-for-profit losses applies to individuals, partnerships, estates trusts, and S corporations. For additional information on these entities, refer to [business structures](#). It does not apply to corporations other than S corporations. In determining whether you are carrying on an activity for profit, all the facts are taken into account. No one factor alone is decisive. Among the factors to consider are whether:

1. You carry on the activity in a business-like manner,
2. The time and effort you put into the activity indicate you intend to make it profitable,
3. You depend on income from the activity for your livelihood,
4. Your losses are due to circumstances beyond your control (or are normal in the start-up phase of your type of business),
5. You change your methods of operation in an attempt to improve profitability,
6. You, or your advisors, have the knowledge needed to carry on the activity as a successful business,
7. You were successful in making a profit in similar activities in the past,
8. The activity makes a profit in some years and the amount of profit it makes, and
9. You can expect to make a future profit from the appreciation of the assets used in the activity.

#### ▼ Business Eligibility for Schedule C-EZ

Your business may be eligible to use the abbreviated Schedule C-EZ instead of the longer Schedule C when reporting business profit and loss on your federal income tax return, according to the IRS. That's because the deductible business expense threshold for filing Schedule C-EZ of the Form 1040 is \$5,000. This change allows an additional 500,000 small businesses to file the C-EZ rather than Schedule C.

Schedule C-EZ, Net Profit from Business (Sole Proprietorship), is the simplified version of Schedule C, Profit or Loss from Business (Sole Proprietorship).

Schedule C-EZ consists of an instruction page and a one-page form with three short parts — General Information, Figure Your Net Profit, and Information on Your Vehicle. The instruction page includes a worksheet for figuring the amount of deductible expenses. If that amount does not exceed \$5,000, you should be able to use the C-EZ instead of Schedule C. Contact us to learn more!

#### ▼ Deductible Home Offices

Whether you are self-employed or an employee, if you use a portion of your home exclusively and regularly for business purposes, you may be able to take a home office deduction.

You can deduct certain expenses if your home office is the principal place where your trade or business is conducted or where you meet and deal with clients or patients in the course of your business. If you use a separate structure not attached to your home for an exclusive and regular part of your business, you can deduct expenses related to it.

Your home office will qualify as your principal place of business if you use it exclusively and regularly for the administrative or management activities associated with your trade or business. There must be no other fixed place where you conduct substantial administrative or management activities. If you use both your home and other



locations regularly in your business, you must determine which location is your principle place of business, based on the relative importance of the activities performed at each location. If the relative importance factor doesn't determine your principle place of business, you can also consider the time spent at each location.

If you are an employee, you have additional requirements to meet. You cannot take the home office deduction unless the business use of your home is for the convenience of your employer. Also, you cannot take deductions for space you are renting to your employer.

Generally, the amount you can deduct depends on the percentage of your home used for business. Your deduction will be limited if your gross income from your business is less than your total business expenses. Please contact us for more!

#### ▼ Filing Deadline and Payment Options

If you're trying to beat the tax deadline, there are several options for last-minute help. If you need a form or publication, you can download copies from the Forms page on our website. If you find you need more time to finish your return, you can get a five or six month extension of time to file using Form 7004, Application for Automatic Extension of Time to File Certain Business Income Tax, Information, Other Returns. And if you have trouble paying your tax bill, the IRS has several payment options available.

The extension will give you extra time to get the paperwork to the IRS, but it does not extend the time you have to pay any tax due. You have to make an accurate estimate of any tax due when you request an extension. You can also send a payment for the expected balance due, but this is not required to get the extension. However, you will owe interest on any amounts not paid by the March 15 deadline, plus a late payment penalty if you have paid less than 90 percent of your total tax by that date.

#### ▼ Refund, Where's My Refund?

Are you expecting a tax refund from the Internal Revenue Service this year? If you file a complete and accurate paper tax return, your refund should be issued in about six to eight weeks from the date IRS receives your return. If you file your return electronically, your refund should be issued in about half the time it would take if you filed a paper return — even faster when you choose direct deposit.

You can have a refund check mailed to you, or you may be able to have your refund electronically deposited directly into your bank account. Direct deposit into a bank account is more secure because there is no check to get lost. And it takes the U.S. Treasury less time than issuing a paper check. If you prepare a paper return, complete Form 8050, making sure that the routing and account numbers are accurate, and attach it to the corporation's tax return. Note that Form 8050 may only be filed with the original Form 1120 or 1120S, and the corporation is not eligible to receive direct deposit if the receiving financial institution is a foreign bank, or foreign branch of a U.S. bank. Incorrect numbers can cause your refund to be misdirected or delayed. Direct deposit is also available if you electronically file your return.

You may not receive your refund as quickly as you expected. A refund can be delayed for a variety of reasons. For example, a name or identification number and Social Security number listed on the tax return may not match the IRS



records. You may have failed to sign the return or to include a necessary attachment, such as Form W-2, Wage and Tax Statement. Or you may have made math errors that require extra time for the IRS to correct.

To check the status of an expected refund, use "Track My Refund" an interactive tool available on our links page. Simple online instructions guide you through a process that checks the status of your refund after you provide identifying information from your tax return. Once the information is processed, results could be one of several responses.

#### ▼ Your Appeal Rights

Are you in the middle of a disagreement with the IRS? One of the guaranteed rights for all taxpayers is the right to appeal. If you disagree with the IRS about the amount of your tax liability or about proposed collection actions, you have the right to ask the IRS Appeals Office to review your case.

IRS Publication 1, Your Rights as a Taxpayer, explains some of your most important taxpayer rights. During their contact with taxpayers, IRS employees are required to explain and protect these taxpayer rights, including the right to appeal.

The IRS appeals system is for people who do not agree with the results of an examination of their tax returns or other adjustments to their tax liability. In addition to examinations, you can appeal many other things, including:

- Collection actions such as liens, levies, seizures, installment agreement terminations and rejected offers-in-compromise
- Penalties and interest
- Employment tax adjustments and the trust fund recovery penalty

Appeals conferences are informal meetings. The local Appeals Office, which is independent of the IRS office that proposed the disputed action, can sometimes resolve an appeal by telephone or through correspondence.

The IRS also offers an option called Fast Track Mediation, during which an appeals or settlement officer attempts to help you and the IRS reach a mutually satisfactory solution. Most cases not docketed in court qualify for Fast Track Mediation. You may request Fast Track Mediation at the conclusion of an audit or collection determination, but prior to your request for a normal appeals hearing. Fast Track Mediation is meant to promote the early resolution of a dispute. It doesn't eliminate or replace existing dispute resolution options, including your opportunity to request a conference with a manager or a hearing before Appeals. You may withdraw from the mediation process at any time.

When attending an informal meeting or pursuing mediation, you may represent yourself or you can be represented by an attorney, certified public accountant or individual enrolled to practice before the IRS.

If you and the IRS appeals officer cannot reach agreement, or if you prefer not to appeal within the IRS, in most cases you may take your disagreement to federal court. But taxpayers can settle most differences without expensive and time-consuming court trials.



For more information on the appeals process, please contact us!

#### ▼ Information About IRS Notices

It's a moment any taxpayer dreads. An envelope arrives from the IRS — and it's not a refund check. But don't panic. Many IRS letters can be dealt with simply and painlessly.

Each year, the IRS sends millions of letters and notices to taxpayers to request payment of taxes, notify them of a change to their account or request additional information. The notice you receive normally covers a very specific issue about your account or tax return. Each letter and notice provides specific instructions explaining what you should do if action is necessary to satisfy the inquiry. Most notices also give a phone number to call if you need further information.

Most correspondence can be handled without calling or visiting an IRS office, if you follow the instructions in the letter or notice. However, if you have questions, call the telephone number in the upper right-hand corner of the notice, or call the IRS at 1-800-829-1040. Have a copy of your tax return and the correspondence available when you call so your account can be readily accessed.

Before contacting the IRS, review the correspondence and compare it with the information on your return. If you agree with the correction to your account, no reply is necessary unless a payment is due. If you do not agree with the correction the IRS made, it is important that you respond as requested. Write an explanation why you disagree, and include any documents and information you wish the IRS to consider. Mail your information along with the bottom tear-off portion of the notice to the address shown in the upper left-hand corner of the IRS correspondence. Allow at least 30 days for a response.

Sometimes, the IRS sends a second letter or notice requesting additional information or providing additional information to you. Be sure to keep copies of any correspondence with your records. If you've received a notice and are confused about what to do next, please contact us and we can help!

#### ▼ Charitable Contributions

When preparing to file your federal tax return, don't forget your contributions to charitable organizations. Your donations (up to 10% of taxable income) can add up to a nice tax deduction for your corporation.

#### **Here are a few tips to help make sure your contributions pay off on your tax return:**

You cannot deduct contributions made to specific individuals, political organizations and candidates, the value of your time or services and the cost of raffles, bingo, or other games of chance. To be deductible, contributions must be made to qualified organizations. Cash contributions must be substantiated by a bank record, or a receipt, letter or other written communication from the donee organization indicating the name of the organization, the date of the contribution, and the amount of the contribution. In addition, if the contribution is \$250 or more, a written acknowledgement showing the amount of cash contributed, any property contributed, and a description and a good faith estimate of the value of any goods or services provided in return for the contribution or statement that no goods



or services were provided in return for the contribution, is required. Non-cash contributions over \$500 must be supported by an attachment to the return which states the kind of property contributed, along with the method used to determine its fair market value. Form 8283, Non-cash Charitable Contributions is required for contributions with a claimed value of more than \$5,000. Contributions which exceed the 10% limitation can be carried over for five years.

Organizations can tell you if they are qualified and if donations to them are deductible. IRS.gov has an exempt organization search feature to help you see if an organization is qualified. IRS Publication 78, Cumulative List of Organizations, lists all charitable organizations except those most recently granted tax exempt status. Pub. 78 is available online and in many public libraries. Alternatively, contact us for more!