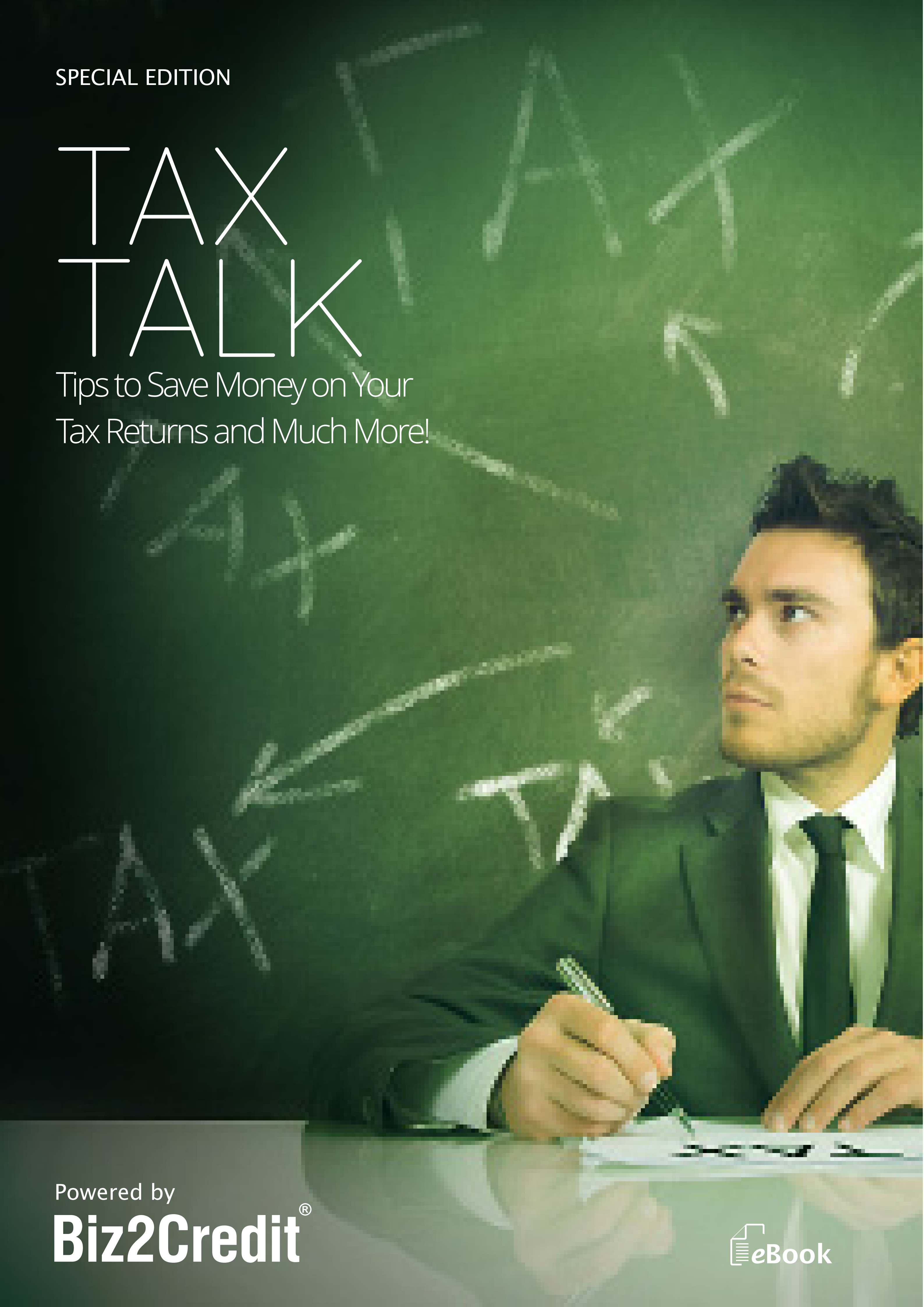
SPECIAL EDITION

TAX TALK

Tips to Save Money on Your Tax Returns and Much More!



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"Tax Talk is a Biz2Credit initiative in addressing the various tax related issues faced by an individual while filing income tax returns. Loaded with vital pieces of information, tips and ideas, this e-book can be a handy tool to help you better understand your tax profile."

Tax Talk for **Your Business**

Organized Business Finances; Simplified Taxes

Take a moment to clean up your finances and keep everything organized. The time you put in now will pay off in the long run. Here are some tips for organizing your small business's finances:

1 ***Consult a CPA***

Taking a moment to discuss your company's finances with a tax advisor is a good idea, especially before tax season gets into full gear. A tax professional might be able to offer some helpful suggestions that are more tailored to your small business.

2 ***Consider Incorporating***

Often, small businesses start out as sole practices or partnerships but eventually transition into larger entities. It might be a good idea for you to consider incorporating your small business, which can help you save some tax money and protect your business from certain financial risks. There are a number of service providers, such as The Company Corporation (www.incorporate.com), which can guide you through the process.

3 ***Review Estimated Tax Payments***

Before tax season is in full swing, take a moment to review your business's earnings, expenses, and cash flow for the previous year. This will allow you to avoid underpayment penalties, and it will also give you an idea of where your business stands.

4 ***Keep Business and Personal Finances Separate***

Open a business credit card. It is not a smart idea to mix personal and business finances; not only will this create confusion and unnecessary complexities, but it can also negatively impact your personal finances in case your small business racks up a lot of debt.

5 ***Use Cloud Computing***

Cloud-based storage is usually not too expensive, and it will help you streamline your financial organization. Things like invoices and expense reports can all be completed using various apps, and cloud computing will help you stay on top of your finances.

Payroll Management for Proper Tax Calculation

A solid payroll management system is imperative to process the employee information efficiently on a daily basis. Also, it is an important tool for proper tax calculation of every employee. Thus, investigate the possibilities, and choose the payroll processing method that promises you the best functionality for your budget.

1 ***Manual Payroll:***

Manual payroll is appropriate only for small businesses with just a few employees. If you choose to calculate your payroll manually, be aware that The American Payroll Association has estimated that error rates for manually calculating employee payroll can range from a low of 1% to as much as 8% of your total payroll.

Key Highlights:

- Calculate required payroll taxes, as well as federal, state, and local withholding.
- Print and file payroll reports, year-end tax documents, and W-2 forms.

2 ***Payroll Software:***

When choosing a payroll software solution, make sure that it is compatible with your current system, easy to use, functional online or in the cloud, and provides free automatic updates of IRS tax tables and applicable employment regulations.

Key Highlights:

- You can use the software to transfer payroll and tax information to the general business account ledger.

3 ***Payroll Outsourcing Services:***

Payroll service providers offer a wide variety of services encompassing nearly the entirety of an HR department's workload.

Key Highlights:

- Secure employee data transmission, regular tax related updates and expert payroll management services.

Key Tax Related Aspects With Establishing Business Credit

Learning how to establish business credit is imperative. Whether you are starting a new business or growing an existing one, establishing good business credit channels is important as it aids in optimizing your business operations.

Your business credit profile is a clear presentation of how financial obligations are managed.

1 *Tax Liabilities as Per the Chosen Corporate Structure*

Your ability to obtain business credit highly depends on the types of corporate structure you build your business on. When it comes to corporations, your business will be taxed twice - at the entity level and also through the shareholders. The government gives tax returns to individuals who receive dividends. However, this will not eliminate them from double taxation.

With limited liability corporations (LLC) taxation is done once, only on shareholders' dividends. Forming your business under a partnership or sole proprietorship incorporates your personal credit to business credit making you fully liable for your business credit. In this case, business owners are taxed from their share of profits made, similar to the LLC. Therefore, you should carefully determine the best corporate structure which can work effectively for your business credit needs.

2 *Significance of EIN/FIN*

Employer identification number (EIN) is important in identifying your business as a separate entity. It can also be termed as a Federal Tax Identification Number (FIN). This number is unique and it is used to identify your business and file corporate taxes, to determine if your business complies with the state laws of taxation.

Understanding the Tax Implications of Leasing an Equipment

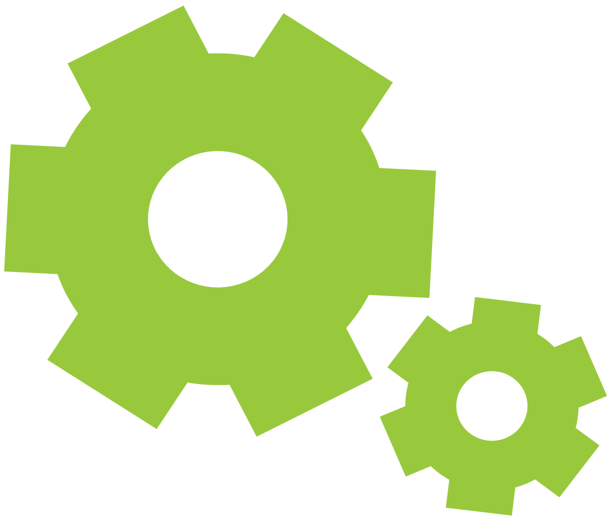
Small business owners often face a dilemma as to whether they should buy or lease a new piece of equipment. There are three viable options when it comes to equipment: buy it, lease it as a capital lease, or lease it as an operating lease. It may appear as a small question with only month-to-month ramifications, but the fact is that the choice made, can affect the tax return as well. Thus, a business owner is expected to make an informed decision about whether or not to lease equipment.

1 *Operating Lease of Equipment*

An operating lease basically refers to the renting of equipment. It is a short term agreement with no option of purchasing the equipment at the end. The rental fee is expensed each month on the income statement.

2 *Capital Lease of Equipment*

A capital lease is treated pretty much like an equipment purchase. Rent is accounted for the same way as loan payments would be accounted for, and the equipment is booked as an asset. As far as the IRS is concerned, a capital lease is a purchase.



3 *What Makes a Lease a Capital Lease?*

Making payments on equipment with the option to purchase at the end of the lease for less than what you would pay for it otherwise, is considered a capital lease. For example, you could lease a piece of equipment for $300 a month for 3 years, with the option to purchase it at the end of the lease for $500. In another situation you would have to pay $1,000, the lease would be considered a capital lease by the IRS and thus be treated as a purchase (because the agency feels you are essentially making payments toward the purchase of the equipment).

4 *What Works Best?*

It depends on what suits best for your business. With an operating lease you get to book rent expense. With a capital lease or purchase, you will likely get to deduct interest expense. The ramifications of this on tax a return depend on multiple variables. However, there are multiple advantages to equipment ownership that go beyond tax implications.

Tax Talk at the **Individual Level**

Tax Benefits on Medical Expenses

Medical expenses have skyrocketed over the past few years. These expenses can be financially devastating, especially if you have unforeseen emergencies that are not fully covered by your insurance. The Internal Revenue Service allows taxpayers some relief, making some of these expenses partly tax-deductible. However, certain restrictions apply.

1 *Medical Tax Benefits and Adjusted Gross Income:*

The IRS allows you to deduct qualified medical expenses that exceed 10 percent of your adjusted gross income for the year. (Your adjusted gross income is your taxable income minus any adjustments to income such as deductions, contributions to a traditional IRA and student loan interest.) If you are age 65 or older, you may deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income. This exemption for older taxpayers is temporary and will be phased out in 2016.

2 *Medical Expenses Deducted on Schedule A:*

Medical expenses included under this type of plan are those defined in Section 213 of the Internal Revenue Code. As a general rule, medical care includes amounts paid for diagnosis, cure, mitigation, treatment, or prevention of a disease. Appropriate expenses include, but are not limited to:

- Health Insurance Premiums
- Dental Care Fees
- Hospital Bills
- Deductibles
- Vision Care Fees
- Laboratory Fees
- Physician Fees
- Chiropractor Care Fees
- Orthodontia Costs
- Prescription Costs
- Psychiatric Care Fees
- Medical Supplies Costs

3 *Reimbursed Medical Expenses Not Deducted:*

Medical expenses for which you are reimbursed, such as by your insurance or employer, cannot be deducted. Further, the IRS disallows expenses for cosmetic procedures. Taxpayers are also not allowed to deduct the cost of non-prescription drugs.

Taxes and Your Social Security Benefits

All of us who have worked towards retirement are entitled to collect Social Security benefits. Sadly, however, you may owe some or all the income tax on the benefits which you receive.

In general, if you have income from other sources, such as a pension, IRA, or capital gain distribution, you probably will be subject to paying taxes on the Social Security benefits you receive. IRS publication 17 gives you the worksheet you need to figure what part, if any, of your benefits you must include in income.

Remember, if you are married and file a joint return for 2013, you and your spouse must combine your income and benefits when figuring whether any of your combined benefits are taxable.

Addressing Identity Theft and Consequent Tax Woes

Identity theft occurs when someone uses your Social Security number or your Tax ID Number without your permission. You may not even be aware that this has even happened until you discover that two tax returns have been filed using the same Social Security or Tax ID Number!

Last tax season, the IRS reported $20 billion dollars of fraudulent tax refunds. They currently are investigating over 200,000 cases.

Here are some useful tips that can ensure that you are not subject to identity thefts:

- Avoid carrying your Social Security Card in your wallet
- Don't give a business your Social Security Number
- Protect your financial information
- Check your credit report for surprises
- Protect your computer with a firewall and anti-spam virus protection
- Avoid giving any financial information over the phone

Tax Talk for Financial Year 2014

Tax Time Preparations

Preparing for the end of the year taxes is no small feat, whether you are a veteran small business owner or a start-up. There is so much to account for and seemingly so little time that it can be a recipe for personal and business disaster without a little careful planning and organization.

1 *Follow the Checklist*

First, ask your tax Preparer for their checklist. Depending on the Preparer, this may be a single sheet of paper, or it may be a three ring binder. Once you have that, you can begin to gather the information needed to mark items off the list and fill the binder if applicable.

2 *Avoid Paper Hassles – Embrace Bookkeeping Software*

There is a lot of software available, much of it free, to help you keep things organized throughout the year with very little extra effort required by you or your bookkeeper, once it is implemented. Do not let the implementation phase scare you, it is worth it.

3 *Understand the Software In-and-Out*

If you already have the software, be certain you understand what it can do for you when it comes to tax preparation. If there is a support hotline, utilize it if necessary to take full advantage of all it has to offer. If you are finding it too difficult to utilize the tax benefits of your current software, meet with a CPA, whose job is to keep a tab on ever changing tax codes.

Sorting The-Post-April-Tax-Extension Puzzle

If you need a little extra time to file your taxes, you should file for a tax extension in April. The extension will give you an extra six months. Being smart about certain aspects while filing taxes can not only save you a handful of your hard earned money, but can also spare you the last minute rush. Read on to find out how to save money.

1 Figure Out Deductions

Go through the previous year and try to figure out which deductions and exemptions you can take. Did you drive way more than you thought? Mark down every last mile you can – you may be surprised how much it saves you on automobile related tax deductions. Do you qualify for the home office deduction because you have a dedicated room in your house for your business? Then you could also deduct expenses like utilities.

2 Get Organized

Create a filing system that works for you but also keep all your paperwork in a real order. Put all deductions together, all your receipts together, and get an account at GoDaddy Online Bookkeeping so you can keep your finances in order with no fuss.

Also consider digitizing all your paperwork so you can easily search for it. Either scan everything yourself or send it all to Shoeboxed and they'll do it for you. Now when you need a receipt or invoice you can search for it on your computer rather than rifle through lots of little odd-sized papers.

3 Update Your Calendar

To help make sure the rest of your tax time goes better – quarterly estimated taxes, annual taxes in April, even sales tax – update your calendar. It's easy to forget one of the many important dates when it comes to taxes, so it's vital you get a system going to help you out. One missed tax time date will result in being behind for the rest of the year. Mark specific dates on your calendar to help you get moving so you're not just perpetually catching up. For example, mark when you should get all your paperwork ready or when the earliest filing time is. This way you're ahead of the game rather than being always stressed!

3 Tax Incentives that are Still in Force

There were some pretty great small business tax incentives that were supposed to disappear into the sunset, or at least be reduced drastically, prior to the 2013 tax year. However, they were extended through the end of 2013 and even beyond, meaning you can use them on the tax forms you are currently getting ready to prepare.

1 ***Section 179 Expense***

This is the rule that says you can fully expense certain costs for the year they were incurred, rather than expense them out over the course of 5 years. Originally the cap on this was $500,000, and it was set to reduce over time until it reached $25,000 for the 2013 tax year. The $500,000 cap was extended through the end of 2013 however, and the $25,000 cap was extended to 2014. This could make a big difference on the 2013 tax return.

2 ***Extra Depreciation***

Another incentive that was set to blow away on the wind before the 2013 tax year is the bonus depreciation incentive that allows for up to 50% of certain investments to be taken as depreciation at once. This has now been extended to 2014 in some cases.

3 ***Charitable Deductions***

Those small businesses that have food inventory can donate it for a deduction that is twice a normal charitable contribution would be. This incentive was to expire in 2011, but was extended to 2013.

What Does It Mean?

For some of these incentives, the tax return due April 15, 2014, is the last one that these can be used on. The extra depreciation and Section 179 expense would each reduce income if applicable, and thus reduce tax expense. The deduction for the charitable contribution of food inventory would also reduce the bottom line, meaning the 2013 return is the last time to save using these incentives.

Be certain you are up to speed on what each once entails if you are doing your own tax return so that you do not miss out on any benefits for which your business may qualify. If doing your own taxes is too daunting, hire a professional to do it correctly while relieving yourself of the burden and focusing on other duties.

8 Tax Tips
You Cannot Afford to Miss!

1 ***Know Your Tax Rate***

While ordinary federal income tax rates for 2013 will remain the same, the so called "Fiscal Cliff" legislation passed in 2013 affects higher-income individuals and puts them in the 39.6% tax bracket (up from 35%).

2 ***Use Credit Cards Smartly***

Payments made by credit card are deductible in the year they are charged, not the year they are paid, so you can donate to your favorite charity by December 31 and not pay the bill until next year.

3 ***Consider Deferring Income***

Consider deferring income if you expect to be in the same or lower tax bracket for 2014.

4 ***Sell Securities Intelligently***

Consider the tax impact of selling appreciated securities by timing your investment gains and losses. Selling some loser securities before year end may also be a smart tax strategy.

5 ***Leverage Charitable Contributions***

Take advantage of the special tax breaks available to you if you make charitable contributions directly from your IRA; special rules apply.

6 ***Be Mindful About Lifestyle Changes***

Remember that significant lifestyle changes like divorce, a job change, retirement or becoming a home buyer affect your taxes.

7 ***Don't Overdo Flexible Spending***

Spend down flexible spending accounts before those balances expire.

8 ***Go Green***

Purchasing energy-efficient appliances can mean big tax credits.

Smart Tax Refund Ideas For Year 2013

1 ***Consider Your Filing Status:***

While most married couples file jointly, a joint return is not always the smartest approach. Married-filing-separately status requires more effort, because both parties must itemize deductions. However, sometimes married couples are better off filing separately even if they are happily married! Calculating your taxes both ways will point you in the higher refund direction.

The IRS uses a percentage of adjusted gross income to determine a host of qualified deductions on Schedule A. Filing separately gives each spouse a lower AGI (Adjusted Gross Income). Hence, certain medical expenses and miscellaneous deductions qualify only when spouses opt to file separately.

2 ***Boost Your IRA Contribution:***

Under the current tax law, taxpayers have until April 15 to open or add to a traditional IRA for the previous tax year. That gives you the flexibility of claiming the credit on your return now. Traditional IRA contributions reduce your taxable income. Small business owners and others can take advantage of the maximum contribution and, if you're at least 50 years old, the catch-up provision, to add to your IRA.

3 ***American Opportunity Tax Credits:***

Unlike the other education tax credits, the American opportunity tax credit includes expenses for course-related books, supplies and equipment that are not necessarily paid to the educational institution. It also differs from the Hope scholarship credit because it allows the credit to be claimed for four years of post-secondary education instead of two. This tax credit provides up to $2,500 of the cost of tuition, fees and course materials paid during the taxable year.

Tax Talk Video Galley

Business Tax Tips

- Filing Expenses
- Estimated Taxes
- Seeking Capital
- Entertainment Deductions
- Computer Software Deduction
- Travel Expenses Deduction
- Investment Deductions

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