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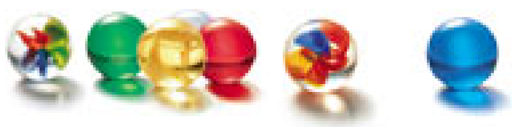

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DIFFERENT FORMS OF BUSINESS ORGANIZATION

PLAN: Select a "Sole proprietorship" form of business organization initially: when you are the sole owner of the business, and you anticipate that the business will operate at a loss or near break-even (zero profit).

1. Only one-owner businesses can operate as a Sole Proprietorship, therefore the owner will file a Schedule "C" (information only) tax form, along with their personal income tax return (Form 1040).
Note: If your business has more than one owner, you will want to select the corporation form of business organization (either an "S" corporation or a "C" corporation).

2. Under this form of organization, any business profit (or loss) is shown on the bottom line of Schedule "C" (a tax form showing the business' "Sales" (less) "Expenses"), and flows through to the owner's personal income tax return (Form 1040).

Profit is taxed at the owner's personal income tax rate.

Losses offset other income shown on the owner's personal income tax return (Form 1040) such as: interest, dividends, W-2 wages, other business income, short-term capital gains, net rental income, and farm income.

Note: Although your expectation is that your business will generate a profit, it' s nice to know that if your business does generate a loss (hopefully just a paper tax loss, and not an actual out-of-pocket dollar loss), this loss can be used to reduce other taxable income.

3. Whenever the sole proprietorship generates a profit, the owner is liable for "Self-Employment" Tax (at 15.3% of all Sole Proprietorship profit up to $61,200, and 2.95% on all profit in excess of $61,200). Self Employment Tax due is calculated on Schedule "SE".

Note: It's this liability for Self-Employment Tax that represents the major tax disadvantage for the Sole Proprietorship form of business organization.

4. The owner pays himself or herself by writing a "Draw" check out of the business' checking account.

Note 1: Since the Sole Proprietorship is prohibited from paying the owner W-2 wages, the only way the owner can be compensated is by receiving a Draw Check.

Note 2: This draw check is a "Non-taxable Event"--meaning that whether or not the owner receives a draw check, the owner will still be liable for taxes due on the entire profit of the Sole Proprietorship, even if the profit dollars are kept in the business' checking account. As a sole proprietor "you are the business and the business is you." Transfers of cash from the "business" to your personal funds are similar to moving dollars from your right pocket to your left pocket.

5. Although the owner cannot be paid W-2 wages by the Sole Proprietorship, the owner can have the

business pay his or her spouse W-2 wages, if the spouse is active in the business.

Note 1: These W-2 wages are subject to Social Security (FICA) and Federal Income Tax Withholding plus the Employer' s matching portion of the Social Security (FICA) tax due.

Note 2: This only applies when both spouses actively work in the business, and it's a sole proprietorship.

If you are "married filing jointly," put the business in the name of the spouse who is the *highest* wage earner. This spouse is more likely to "max out" on a portion of Social Security (Self-Employment) taxes.

If you are "married filing separately" you should follow the following guidelines:

If the business is anticipated to make a profit, put the business in the name of the *lowest* wage earner--this spouse may be in a lower tax bracket (for example, 15%, as opposed to 28%).

If the business is anticipated to generate a loss, put the business in the name of the *highest* wage earner--so that this business loss can offset potentially higher tax bracket income (for example, 28%, as opposed to 15%).

PLAN: You May Want to Select an "S" Corporation Form of Business Organization When Your Business is Anticipated to Make a Profit.

1. You can elect to be an "S" Corporation even if your business only has one owner, or, if more than one owner, up to a maximum of 75 shareholders. An "S" Corporation is a separate legal entity where the individual shareholders (owners) elect to be personally responsible for the income taxes due on the pro-rata share of any corporate profits. "S" Corporation shareholders, by making this election, also receive the benefit of any tax losses generated by the corporation--all profits and losses of an "S" Corporation flow through to its owner(s)' personal income tax return(s). (Remember, an "S" Corporation is a separate legal entity, but not a separate taxable entity.) The owner(s)' pro-rata share of the corporate profit or loss is reported on a *Schedule K-1*. If there is only one owner, all profit or loss is shown on only one *Schedule* K-l--theirs.
2. Under this form of organization, corporate business profit or loss is shown at the bottom of "Form 1120-S"--an information only business tax form showing the business' "Sales" (less) "Expenses", and flows through to the owner(s)' personal income tax remms (Form 1040). Just as in the instance of the Sole Proprietorship:

. Profit is taxed at the owner(s)' personal income tax rate(s).
. Losses offset their other income shown on the owner(s)' personal income tax return (Form 1040) such as: interest, dividends, W-2 wages, other business income, short-term capital gains, net rental income, and farm income.

Note: The goal is that your business, even initially, will not actually lose money but will at worst, experience "Paper Losses" that are created by non-cash business expenses (such as vehicle mileage, depreciation, and Section "179" asset expensing).

3. **The big distinguishing tax advantage of an "S" Corporation** (over a Sole Proprietorship) is that

"S" Corporation profits (after shareholder(s)' salaries) **are exempt from self-employment** taxes. The profit of an "S" Corporation is considered a Return on Investment (ROI) to its owner(s), not earned income, and therefore is not subject to Self-Employment tax.

4. The owner(s) can compensate themselves in two distinct ways: (a) W-2 Wages, and/or (b) Distribution of Profit.

a. W-2 Wages: Any owner(s) of an "S" Corporation, and/or their respective spouse(s) can receive W-2 wages from the business; in fact, any owner(s) who actively work in the business are obliged to pay themselves W-2 wages for the fair market value of the work they perform for the business. This amount can be estimated by paying the owner(s) an amount that the business would have to pay someone else to do the task(s) the owner(s) performs for the business.

Note: These W-2 wages are subject to Social Security (FICA) and Federal Income Tax withholding, plus the employer's matching portion of Social Security Tax (FICA).

b. Distribution of Profit: Owner(s) can also compensate themselves by issuing Distribution of Profit check(s), made payable to the owner(s), written out of the business' checking account.

Note: This Distribution check(s) is considered a "Non Taxable Event"--meaning that whether or not the owner(s) receives a Distribution of Profit check, the owner(sO will be liable for taxes due on each owner(s)' pro-rata share of the entire profit of the "S" Corporation--even if the profit dollars are kept in the business' checking account.

All corporations are "C" Corporations initially. You, as the owner, must file an IRS Form 2553 electing to have your business become an "S" Corporation.

Note 1: Your business is not allowed to become an "S" Corporation if it has more than 35 stockholders, who are U.S. citizens,

and

Note 2: This Form 2553 must be filed within 2 months and 15 days of either:

(1) the date of incorporation, or

(2) the beginning of the corporation's current fiscal tax year.

PLAN: Select a "C" Corporation Form of Business Organization When You Have Both a Strong Desire and Opportunity to "Grow" the Business (Increase Sales) by Keeping Dollars in the Business, and are Liable for Higher Personal Income Tax Rates as the Business' Owner(s).

1. Any number (one or more) of individuals can be the owner(s) of a "C" Corporation. The owner(s) can take compensation out of a "C" Corporation in the form of W-2 wages, paid to themselves and/or their spouse.
2. Owners may wish to keep the dollars of profit in the business to "Grow" the business' sales. This type of growth may require additional funding, particularly in one or more of the following areas: cash flow reserves, accounts receivables, inventory, and equipment. Dollars that are kept in a "C" Corporation are taxed at "C" (regular) Corporation rates.

As long as the "C" Corporation's marginal tax rate (Marginal meaning the rate that applies to the last taxable dollars earned) is lower than the owner(s)' marginal personal income tax rate (your business' form of organization should remain a "C" Corporation--a separate legal tax entity.

For example:

If the owner(s)' marginal income tax rate is 28%, but the applicable "C" Corporation marginal tax rate is 15%, the owners are better off leaving the dollars in the "C" Corporation where the business will pay tax at a rate of 15%, rather than taking the dollars out of the business as either...

a) A "Distribution of Profit" from an "S" Corporation, where the owner(s) would pay tax at a marginal tax rate of 28% (13% higher than the applicable "C" Corporation tax rate),

or

b) (Worse yet), W-2 wages paid to the owner(s) from an "S" Corporation--creating a 28% Federal Income Tax Liability plus the potential for a 7.65% employer's matching portion of Social Security (FICA) tax due; (28% + 7.65% = 35.65%, 20.65% higher than the applicable "C" Corporation tax rate).

...and then reaming these same dollars (that the owner(s) took out of the "C" Corporation) back to the business in the form of a return of capital or a loan to the business.

PLAN: If You Have a Business Partner(s), You May Not Want to Consider Selecting the "Partnership" Form of Business Organization.

1. The Partnership form of business organization is reserved for multiple owners (more than one owner) of the business. The owners will receive both a Form 1065 and a K- 1 form indicating their pro-rata share of profit and or losses.
2. Under this form of business organization, any business profit or loss is shown at the bottom of an information only tax *Form 1065* (a tax form showing the business' "Sales" (less) "Expenses") and flows through to the owners' personal income tax returns.

□. Profit is taxed at the owner(s)' personal income tax rates.
□. Losses offset other income shown on the owner(s)' personal income tax return(s) *(Form 1040)* such as: interest, dividends, W-2 wages, other business income, short-term capital gains, net rental income, and farm income.

Note: The goal is that your business, even initially, will not actually lose money, but will, at worst, experience "Paper Losses" that are created by non-cash business expenses (such as vehicle mileage, depreciation, and Section "179" asset expensing).

1. **The big disadvantage of a "Partnership"** (as compared to an "S" Corporation) is that if the business generates a profit, the owners will also be liable for "Self-Employment Tax" (at 15.3% of each owner's pro-rata share of total partnership profit up to $61,200, and 2.9% on each owner's pro-rata share of total partnership profit in excess of $61,200).
2. The owners pay themselves by writing a check out to each partner reflecting (a) their profit/loss sharing percentage (often reflecting their percentage of ownership), and (b) the amount of time and

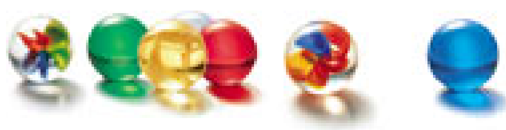
effort the owner puts into the day-to-day business operations of the partnership.

Note 1: Since a Partnership is prohibited from paying its owners W-2 wages, the only way the owners can be compensated is by receiving these distribution of profit checks (or in the form of "Guaranteed Payments," in which case the partners receive predetermined dollar amounts of profit distribution on a regular basis).

Note 2: These profit distribution checks are a "NonTaxable Event", meaning that whether or not the owners receive any checks, the owners will still be liable for taxes due on the pro-rata share of the partnership' s entire profit, even if the profit dollars are kept in the business' checking account.

5. Although the owners cannot be paid W-2 wages by the partnership, the owners can have the business pay their spouses W-2 wages, if the spouse is active in the business.

Note: These W-2 wages are subject to Social Security (FICA) tax and Federal Income Tax withholding plus the employer's matching portion of Social Security (FICA) tax due.



BUSINESS TAX DEDUCTIONS

PLAN: Select the Proper Method of Writing Off Your Business' Initial Expenditures.

Your business' initial expenditures can include the following: market surveys, research in the areas of facilities, labor and supplies, grand opening advertising, employee salaries--wages during training plus training instructors' salaries, travel to secure distributors, suppliers and/or customers, salaries for consultants or other professionals--such as lawyers and accountants, business cards, separate telephone lines, commissioned sales representatives, lists of customer leads contacted, direct mail, rental of business space, yellow pages ads, newspaper ads, radio/TV ads, printed fliers, or any other legitimate efforts to market your business.

These initial expenditures your business incurs can be divided into two general categories: (1) Start up, and (2) Operating.

1. Start Up Expenditures consist of items that are generally incurred during the first year of your business' existence--the ordinary and necessary expenditures required by your business in its initial time period; they occur during a period of time when your business is making no real effort to generate any income (because it's not ready to do so). These expenditures are deducted by amortizing them over a 60 month period--beginning with the month in which your business actually begins operations--the month in which your business becomes ready, willing, and able to actively and materially offer its products and/or services to the marketplace.

For example:

Amortization deduction per month = start up expenses (divided by) 60 months.

2. Operating Expenditures are those items that your business incurs--in pursuit of income--after the business is already "in business". These expenditures become expenses of your business in their entirety--100%. In fact, even if your business attempts marketing and does not generate any sales revenue, your business can still deduct all these expenditures as operating expenses, provided you can

substantiate the claim that your business did attempt to generate sales revenue.

Note: Additionally, deductible interest, taxes, and research and development costs can also be fully expensed during the business' start up period.

PLAN: Claim Any and All Appropriate Business Tax Deductions.

As a business owner, you must be aware of the tax deductibility of your business expenses.

Listed below are some of the more common business tax deductions. They are in alphabetical order to allow easy access. Some will be obvious in their applicability, while others will require the application of specific strategies to afford your business maximum tax advantage.

ADVERTISING AND PROMOTION

Write off gifts that your business purchases and gives away as "Advertising and Promotion" expenses, when appropriate, to avoid the $25 maximum on the amount of each gift your business can deduct.

ANSWERING SERVICE OR PAGERS

If you use an answering service and/or a pager for business and personal use, you must differentiate between this business and personal use--developing a percentage for business usage, the balance for personal. Then you can pro-rate the dollar costs of these services between (1) tax deductible business usage, and (2) nondeductible personal usage.

BANK CHARGES

Bank charges relate to charges that appear on your business' checking account bank statement. These include charges for the cost of ordering new checks, check binders, and sometimes-incidental services that the bank provides. These charges are all tax deductible to the business.

CLUB DUES AND MEMBERSHIP FEES

Club dues and membership fees can no longer be deducted for business purposes. Specific examples of the types of groups included in "Club Dues and Membership Fees" include, but are not limited to the following: airline and hotel clubs, health and fitness clubs, country club membership costs, as well as sporting arena/stadium sky boxes, which have been specifically made non-tax-deductible.

COMPUTER EXPENSES

Classify computer expenses under, for example $100, and with a useful life under one year, as operating expenses.

Any computer purchases in excess of this $100 figure, with a useful life in excess of one year, should be treated as capital assets and depreciated over five (5) years. The expense associated with these capital asset costs will show up under the general operating expense category of "Depreciation

Expense". EDUCATIONAL EXPENSES Your business is allowed to deduct the cost of educational items, such as books, consulting, seminars,

and other specifically identified activities and/or items that are purely educational in nature.

FREIGHT AND DELIVERY

Deduct "incoming" freight and delivery expenditures as a part of your business' "Cost of Sales" expenses. Deduct "outbound" freight and delivery expenditures as one of your business' "Operating" expenses.

GIFTS Gifts are tax deductible up to $25.00 per individual per tax year. INSURANCE The following types of business insurance premiums are fully deductible to your business: equipment,

vehicles, liability, employee life and health (subject to some restrictions), business interruption, fire and theft, bonding, and workers' compensation. Note: You may be able to exempt owners/officers of your business from workers' compensation, depending on your local State laws.

INTEREST All business-related interest expenditures are fully tax deductible--unlike personal interest, which is no longer tax deductible for individuals.

LEASE EXPENSE

If your business lease is a "Straight Lease," this means that your business is not accumulating equity throughout the term of the lease; the lease payment is no more than a payment for the use of the asset. This form of lease payment is fully tax deductible.

If, on the other hand, a portion of your business' lease payment includes "equity" so that the "buy out" at the end of the lease period is considerably less than the fair market value at the end of the lease (for example, a $1.00 or $10.00 buy out amount), this type of lease is referred to as a "Capital Lease" in that it accumulates equity and should be treated as an "Asset Purchase" for tax purposes.

LEGAL AND ACCOUNTING

LICENSES AND FEES

OFFICE EXPENSES

Your business is entitled to deduct the cost of any and all office expenses and supplies that relate directly to the operation of your business. These costs should be deducted fully in the year in which they are incurred.

Note: Your business may also purchase "Sample Products." If these samples are for display purposes only (never to be sold), their cost will remain in a non-deductible Balance Sheet account, until such time as they are no longer used as samples. They will at that time be expenses--taken as a business tax deduction. In some cases, however, a business' sample products are continuously for sale, and their dollar costs will remain in inventory, along with the rest of your business' unsold products until they are sold.

OFFICE SUPPLIES

OUTSIDE SERVICES

These are mainly for services for which it makes no sense to maintain a staff to perform, as they are either:

1. Not required that often, and/or
2. Your business doesn't have the capability to perform them.

Be careful not to pay individuals who would otherwise be classified as employees as "Outside Service Providers" or Contract Labor. If an individual performs the functions of an employee, they must be treated as an employee.

Outside Service providers ideally will have their own business entities to which all checks in payment for services rendered should be made out.

POSTAGE

PRINTING RENT REPAIRS

AND MAINTENANCE

Be careful not to expense, as repairs and maintenance, any expenditures for items that are intended to have a useful life of greater than one year, as these items should be treated as "Capital Expenditures" and are subject to "Depreciation Expense" deductions, rather than current year expensing.

SALARIES AND WAGES

All salaries and wages paid to employees of your business are fully tax deductible.

SECURITY EXPENSES

The expenses associated with the security of your business could range from the monthly monitoring fee of a security system to the cost of a guard dog. These types of security-related expenditures are tax-deductible business expenses.

If, however, the security of your business involves the purchase of any fixed assets, such as the purchase of a security system, then the cost of these business assets must be depreciated over the appropriate number of years in order for their cost to be a tax deduction.

SHOP SUPPLIES

Shop supplies relate primarily to either manufacturing businesses, where the production of a product is the major business activity, or where major repairs are associated with the providing of a business service. Shop supplies could be such items as consumable oil, cleaning supplies, and other compounds and materials (not to be confused with raw materials, which are themselves part of the cost of sales for the business), such as rags, sawdust oil compound, and cleaning solvents, to name a few.

SMALL TOOLS

TAXES

Payroll taxes, such as the matching portion of Social Security (FICA) tax and/or Federal and State Unemployment taxes are fully tax deductible to your business. Also, other forms of taxes are equally tax deductible, including tangible personal property, intangible, and sales tax paid.

TELEPHONE EXPENSES

If your business is operated out of a traditional business office, many expenses relating to your business' telephone activities are fully tax deductible.

□. The costs of any additional telephone lines that are specifically identified for business usage are fully deductible.
□. Any long-distance expenses related to your business' activity are fully tax deductible.

If you operate your business out of a "Home Office," there is one restriction on the deductibility of telephone expenses; the basic cost of maintaining the main telephone line coming into your home is not deductible. However, any special features you added to facilitate your business' activities are deductible. These include such optional features as "call waiting" and "call forwarding."

Another area of telephone expenses relates to the purchase of telephone equipment. You can depreciate these assets over the appropriate "depreciation recovery period," or alternatively elect to "asset expense" the cost under Section "179"--up to $17,500--in the year in which the telephone equipment was purchased and placed into service by your business.

TEMPORARY WORK ASSIGNMENT

The IRS defines the "temporary work assignment" as less than one year in duration. When you or an employee are on work assignments away from the normal place of business, the assignment creates special tax treatment of the living expenses associated with the person's temporary work assignment. If you or any of your employees are required, by the nature of the job, to spend a temporary period of time away from the work location, lodging, travel, and other expenses related to maintaining living in a temporary location are fully tax deductible to the business, while only 50% of business-related food and entertainment expenses are tax deductible to the business.

TRAVEL

Make your travel expenditures tax deductible as business travel. The key premise in making your travel expenditures tax deductible is that the trip must be for a definite business purpose--for example: conventions, seminars, research trips, buying trips, sales calls, and even owner(s)' meetings.

Do not deduct travel for the sole purpose of starting or buying a new business.

Adhere to the two (2) hour minimum for business appointments when traveling to ensure that the day of the meeting qualifies as a "business" day.

Be aware of the different tax rules applicable when traveling outside the United States:

- If your travel outside of the United States is 100% for business, your transportation expenses are 100% tax deductible.
- If your travel outside of the United States is less than 100% for business (meaning partly personal in nature), you can still deduct 100% of the business transportation expenses under either of the following two scenarios:

1. If you go outside of the United States for less than one (1) week, or,
2. If you spend less than 25% of your travel outside of the United States on non-business activities.

PLAN: How to use Depreciation

Determine Your Business' Most Advantageous "Depreciation Expense Deduction Option" Applicable to Your Business' Capital Assets.

The cost of business equipment is deducted using "Depreciation Expense Rules." Depreciation expense represents the dollar amount of tax deduction that is allowable each year on each item of business capital equipment. This includes such items as furniture and fixtures, copiers, fax machines, computer hardware and software, or any other equipment you use in your business. A depreciation deduction is allowable until all applicable depreciation on a particular capital asset has been taken.

Depreciation represents the deducting, or expensing, of capital assets over an appropriate number of years. The real advantage of "Depreciation Expense" is that it is a legitimate business tax deduction for which there is not necessarily any corresponding current year cash expenditure. The dollar amount of annual depreciation expense is based on either the initial cost of the equipment, if your business purchased the item, or the lesser of cost or market value, if you have converted the item(s) to your business. The appropriate number of years depends on the "Recovery Period" applicable to a particular type of capital asset:

Class of Asset

Examples of

Assets Included

Three-Year Property

Five-Year Class

Seven-Year Class

Special Manufacturing Devices and Tools Computers, Office Equipment and Vehicles Office Furniture and Fixtures The following steps are required in determining the dollar amount of the "Depreciation Expense

Deduction":

Step #1:

Determine the percentage % of business usage for each item of equipment %

Step #2:

Select the appropriate Depreciation method: If the percentage % of business usage is 50%

or less, -use Straight Line Depreciation If the percentage % of business usage is greater

than 50%, your business has three choices:
1. Asset Expensing,
2. Accelerated MACRS Depreciation, or
3. Straight Line Depreciation

Step #3:

Determine the appropriate depreciation convention:
- Half-year Convention: Use this convention without regard to when, during the year, the asset was placed into service.
- Quarter-year convention: Use this convention if the cost of the assets placed into service during the last quarter of the tax year exceeds 40% of the total assets placed into service during the year.

Step #4:

Determine the applicable "Depreciation Rate":

A. Asset Expensing: Your business can deduct up to $17,500 in qualifying business equipment per year, per taxpayer, in the year in which the assets are:

1. Purchased, and
2. Placed into service (under IRS Code Section "179") ..... providing your business has purchased less than $200,000 of Section "179" equipment in the same tax year.

Note: To qualify for a Section "179" deduction, business equipment must be used more than 50% for business purposes.

B. Half-year Convention - MACRS Accelerated Depreciation

	DEPRECIATION RATE CLASS OF PROPERTY		
YEAR	**3 YEAR**	**5 YEAR**	**7 YEAR**
1	33.33%	20.00%	14.29%
2	44.45%	32.00%	24.49%
3	14.81%	19.20%	17.49%
4	7.41%	11.52%	12.49%
5		11.52%	8.93%
6		5.76%	8.93%
7			8.93%
8			4.46%

C. Quarter-year Convention - MACRS Accelerated Depreciation

		DEPRECIATION RATE Placed in service...			
CLASS OF PROPERTY	YEAR				
3-year		**1st Qtr**	**2nd Otr**	**3rd Qtr**	**4th Otr**
	1	58.33%	41.67%	25.00%	8.33%
	2	27.78	38.89	50.00	61.11
	3	12.35	14.14	16.67	20.37
	4	1.54	5.30	8.33	10.19
5-year					
	1	35.00	25.00	15.00	5.00
	2	26.00	30.00	34.00	38.00
	3	15.60	18.00	20.40	22.80
	4	11.01	11.37	12.24	13.68
	5	11.01	11.37	11.30	10.94
	6	1.38	4.26	7.06	9.58
7-year					
	1	25.00	17.85	10.71	3.57
	2	21.43	23.47	25.51	27.55
	3	15.31	16.76	18.22	19.68
	4	10.93	11.97	13.02	14.06
	5	8.75	8.87	9.30	10.04
	6	8.74	8.87	8.85	8.73
	7	8.75	8.87	8.86	8.73
	8	1.09	3.33	5.53	7.64

D. Half-year Convention - Straight Line Depreciation

CLASS OF PROPERTY	YEAR	**DEPRECIATION RATE %**
5-Year		
	1	10.00

	2	20.00
	3	20.00
	4	20.00
	5	20.00
	6	10.00
7-Year		
	1	7.14
	2	14.29
	3	14.29
	4	14.29
	5	14.29
	6	14.29
	7	14.29
	8	7.14

Note: Changing (Switching) Depreciation Methods: Your business may change from MACRS to Straight line whenever it is more advantageous for your business to do so, i.e., whenever the depreciation rate is higher using Straight Line than it would have been using MACRS.

PLAN: Use Section "179" to Asset Expense up to $18,000 (indexed each year to inflation) in Non-Real Estate Qualified Assets Purchased and Placed into Service During the Current Tax Year.

Under Section "179" your business can deduct qualified asset purchases of up to $18,000 per year per taxpayer--provided your business has purchased less than $200,000 worth of Section "179" property in the same year.

The property that is eligible for this Section "179" treatment includes vehicles (up to the maximum per vehicle annual depreciation amount allowed--starting at $3,060 for the first year), equipment, furniture and fixtures, your own personal property in the business--to the extent of its business use, machinery, leasehold improvements, furniture in commercial real estate, and most other tangible personal property used for business purposes (excluding real estate).

Note: Of equal importance for you to be aware of, are those business assets that do not qualify for Code Section "179" asset expensing, such as: inventory, land, repairs, and replacements.

Computers also qualify for Section "179" asset expensing. Computer hardware is Code Section "1245" property; this Code Section "1245" property falls under Code Section "168"--meaning that it is eligible for accelerated (ACRS and MACRS) 5 year depreciation. Also included as Code Section "179" property is computer software that is bought at the same time with the computer hardware.

Note: Computer software that is purchased separately is not considered to be Code Section "179" property; it is considered to be Code Section "167" property--which means that it must be written off using a 36 month depreciation schedule.

Your business can treat all or part of the cost of individual qualifying business assets as Code Section "179" property. Your business must have a business usage percentage for this property of more than 50% to qualify for a Code Section "179" deduction.

Note: You will need to pro rate any Code Section "179" deductions to reflect the business usage percentage (%) by multiplying the proposed amount of the Code Section "179" deduction by the applicable business usage percentage (%) for the specific asset in question. You must use the appropriate unique business usage percentage (%) for each specific asset.

Your business can only take a Code Section "179" deduction in the year in which the qualified assets are:

1. Purchased,

and

2. Placed into service.

Note: Code Section "179" does not apply to assets brought into the business.

For Example:

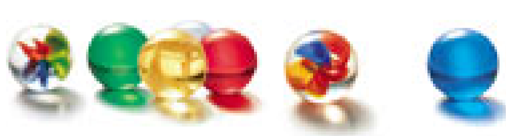
Personal property previously owned by the business' owners which has been converted to business usage, and/or business property that had been previously depreciated or asset expensed by another business entity. *(Any attempt to depreciate or asset expense business property more than once is a violation of "Anti-Churning Rules" and is a clear violation of tax law.)* Only qualified assets bought and placed into service by the business entity itself, during the current tax year, can be written off up to the $18,000 limit during the same current year.

There are very specific types of income that can be sheltered using a Code Section "179" deduction. This includes any taxable income from all the trades and/or businesses in which you are actively engaged, including: W-2 income, "S" Corporation profit, Farm income, and Schedule "C" income.

Note 1: Your business may not shelter the following types of income using Code Section "179": interest, dividends, rental income, and Schedule "D" income. Code Section "179" deductions may not be taken to the extent that they create a loss. If you are unable to use up the entire Code Section "179" deduction in one year, you may carry the deduction forward into subsequent years until the deduction has been used up.

Note 2: You must specifically elect to deduct property under Code Section "179". You cannot just take the deduction and not make the election. You make this "election" by checking off the box for "Section 179 Election" on the depreciation schedules (such as Form 4562) of your tax return.

Note 3: If your Code Section "179" taxable income is low in the current year, you may not want to use this election; it may be to your advantage to shift the greater amounts of deduction--through depreciation expense taken--into future years when your taxable income may be higher--and therefore your marginal tax rate will be higher. The higher the tax rate, the greater are the tax savings created by tax deductions.



VEHICLE DEDUCTIONS

PLAN: Substantiate Your Vehicle Usage as a Transportation Expense Using a "Vehicle Mileage Log".

Transportation expenses include expenses associated with most business trips within your business' home state--its "Tax Home".

Any business-related use of your vehicle generates a number of tax write offs. But before you can take advantage of these deductions, you must first document the business use of the vehicle.

Documentation is complete when you have used a "Mileage Log" to record your business miles, as distinguished from any personal miles you drive, using this same vehicle(s). Once completed, the log provides you with the total number of business miles driven. This is especially useful when using the "standard mileage rate". The log also provides you with the percentage of business usage applicable to this specific vehicle throughout the tax year in question.

Note: Even if you have not kept a mileage log throughout the year, you can still "reconstruct" a log at the end of the year that will meet the IRS requirements. The only difficulty in taking this approach is that you my not be able to recall all your business vehicle miles and therefore understate your deductible vehicle mileage expense.

The following three steps will facilitate the process of your determining the exact amount of deductible vehicle expenses:

Step #1:

Complete the "Vehicle Mileage Log"--see attached worksheets. Each time you use your vehicle for business, you indicate the date and the odometer reading when you start (A) "Log in Mileage", and the odometer reading when you finished (B) "Log out Mileage". By subtracting (A) from (B), you calculate the business miles driven on this particular business-related activity and put this figure in the last column on the right "B (minus) A Business Miles Driven".

At the end of the tax year, you add up the values in this column, plus totals from any continuation sheets, to arrive at (C) the "Total Business Miles Driven" figure.

Step #2:

Calculate (D) "Total Miles Driven" by subtracting your "Beginning of Year Odometer Reading" from your "End of Year Odometer Reading". End of Year Odometer Reading-Minus Beginning of Year Odometer Reading-(-) Equals Total Miles Driven-(=)

Step #3:

This step provides (E) your "Percentage of Business Usage" figure by dividing (C) "Total Business Miles Driven" by (D) "Total Miles Driven".

(E) Percentage (%) of Business Usage equals (=) (C) "Total Business Miles Driven" divided by (/) (D) "Total Miles Driven"

= % Note: Once you have calculated this percentage of business usage figure, you will have substantiated business of your vehicle.

A "Vehicle Mileage Log" like below is best to keep a record.

DATE	Where You Went or Purpose of Trip	**(A)** Log in Mileage	**(B)** Log Out Mileage	**(B) Minus(-) (A)** Business Miles Driven
			TOTAL BUSINESS MILES DRIVEN:	

PLAN: Deduct Your Vehicle Business Expenses on the Basis of Either the Standard Mileage Rate or Actual Expenses.

There are two distinct methods of determining the annual allowable deduction amount for each vehicle that is used in your business. They are:

1. **Standard Mileage Rate (optional) Method:** Under this approach, you simply multiply your business mileage (as determined by using your "Business Mileage Log Worksheet") times (x) the applicable tax year's standard mileage rate (currently set by the Internal Revenue Service at $.30/mile). This gives you the mileage deduction. To this, you add tolls and parking, plus a pro-rata dollar amount of any interest expense (based on the percentage of business usage).
2. **Actual Expenses Method:** In some instances you are better off using actual expenses (particularly when the cost of the vehicle represents a relatively large dollar amount). Under this method, you first determine the percentage of business usage (from your "Business Mileage Log Worksheet"). Then you apply this percentage (%) to all of the tax deductions allowed under this "Actual Expense" method. Under the Actual Expense Method, you are allowed to (a) deduct the business costs of the vehicle using "depreciation expense," and (b) deduct actual business vehicle expenses, such as gasoline, repairs, maintenance, and other costs of maintaining the vehicle.

Qualifying For a Method:

Method #1:

Standard Mileage: *(you must meet all of the following requirements)*

1. Cannot use your vehicle(s) for hire
2. Use only one vehicle at a time (no fleet of vehicles)
3. No straight leases--you own the vehicle(s)
4. No previously accelerated depreciation deductions for the vehicle(s)
5. Vehicle(s) is/are not registered in the corporation's name

Method #2:

Actual Expenses: **Note:** All vehicles qualify for this method to the extent they are used for business purposes. **Selecting a Method:**

Compare the two methods by completing the "Vehicle Business Expense Write-Off Method Selection Worksheet" provided. This will allow you to determine the method that provides the largest tax deduction.

Compare the figures under the two columns: "Standard Mileage" and "Actual Expense".

The method you select will be a function of:

1. The number of business miles you anticipate driving.

If you expect to drive a relatively high number of business miles, the Standard Mileage approach may provide the greater deduction.

and

2. The cost of the vehicle

If the cost of the vehicle is relatively high, you are more likely to select the Actual Expenses approach.

Note: If you use the Standard Mileage rate to deduct vehicle business usage, **do not** deduct the gasoline that is used. The Standard Mileage rate includes an amount for a gasoline usage. Therefore, *only deduct actual gasoline expenses if the Actual Expenses method is used.* Other non-vehicle gasoline used in your business can be deducted as "Gasoline Expense" under your business' operating expenses.

You should calculate the allowable vehicle deduction amount, using both methods, the first year that each vehicle is used in your business. The rationale behind this is that you are allowed to select the more advantageous method (make a separate decision for each vehicle) and implement that method in this first year.

Once you have implemented the "Actuals" method for a specific vehicle, you will remain with the "Actual" method--changing to the "Standard Mileage Rate" method only when this vehicle's deduction would be increased by doing so.

Note: Once you have implemented the "Standard Mileage Rate" method (either initially in the first year, or by switching to it) you cannot switch to the "Actual" method.

BUSINESS VEHICLE EXPENSE WRITE-OFF METHOD SELECTION WORKSHEET

METHODS		
ITEMS	STANDARD MILEAGE	ACTUAL EXPENSE
1. Business Mileage Total	____________Miles	____________Miles
Mileage (est.) % of Business Usage (est.)	____________Miles	____________Miles
2. Standard Mileage Rate	____________%	____________%
3. Standard Mileage Expense	30 cents (.30 per mile)	30 cents (.30 per mile)
4. (1) x (2) above		
5. Other Expenses	$____________	$____________
6. Operating Expenses (est.)		
7. Gasoline		
8. Garage Rent		
9. Insurance		
10. Licenses		
11. Maintenance Expenses (est.)		
12. Oil		
13. Lubrication		
14. Wash/Wax		
15. Tires		
16. Batteries		
17. Repairs		
18. Vehicle Personal Property Taxes		
19. Interest on Car Loan	$____________	$____________
	$____________	$____________

20. Depreciation Expense		
21. Section "179" Expense		
22. Total Other Expenses	$	$
23. (x) % Business Usage	%	%
24. Adjusted Total Other Expenses	$	$
Direct Write Off Expenses		
25. Tolls	$	$
26. Parking	$	$
27. Total Direct Write Off Expenses	$	$
Total Vehicle Expense Write Off **Deduction** (3) + (4) + (5)	$	$
Method Selected (check one)		

HOME OFFICE DEDUCTIONS

PLAN: Determine the Tax Deductibility of Your Home Office.

A recent Supreme Court finding has further clarified the IRS's position with regard to the deductibility of a home office. This has had the compound effect of discouraging individuals, even those who would otherwise qualify for a home office deduction, from actually claiming the deduction.

An "Home Office" qualifies if it is a separate structure OR used to meet with clients.

In order to qualify for a tax deduction effective with the 1997 tax law changes, your home office must be used "regularly" and "exclusively" under the following conditions:

1. As a principal place of business (over half of your total hours working in your business), to conduct administrative or management activities of a trade or business,

2. There is no other fixed location of the trade or business where the taxpayer conducts "substantial" administrative or management activities of the trade or business.

3. As a place where you meet with customers in the normal course of business--if this activity is required by your business,

4. As a place where income-generating activity takes place.

For example, if you are in the debt business and use a home office in providing the service for your clients and meet with clients or potential clients there, you would be entitled to a home office deduction. However, if you bring work home from your business and do the work in a "Home Office", you would not be entitled to a home office tax deduction.

Home office expenses fall into two (2) distinct categories:

1. Direct Expenses: These are expenses that benefit only the business part of your home; they can be deducted in full--they do not have to be pro-rated using percentage of business usage figures.

For example: painting and repairs made to the specific room, plus any special feature charges on your telephone bill--such as call forwarding, call waiting, and conference calls.

2. Indirect Expenses: These include expenses for upkeep and running of your entire home. Since they benefit both the personal and business parts of your home, you must apply the business usage percent (%) to these before deducting them.

For example: rent, second telephone line base charges, deductible mortgage interest and real estate taxes, repairs, maintenance, security system, cleaning, and home-related insurance premiums.

Identify these "Home Related" expenses that qualify as home office tax deductions, and determine their dollar value.

1. Direct Expenses:

Painting (specific room) Repairs

(specific room) Special Telephone

Features Total (tax deductible) Direct

Expenses: $

2. Indirect Expenses:

Rent Second Telephone Line Base

Charges Deductible Mortgage Interest

Real Estate Taxes Repairs (General

Home) Maintenance Security System

Cleaning Home-Related Insurance

Premiums

Total Indirect Expenses: $

TRAVEL AND ENTERTAINMENT DEDUCTIONS

PLAN: Deduct All Applicable Expenses Associated With Legitimate Business-Related Travel.

The following types of expenses qualify as business tax deductions: DESTINATION TRANSPORTATION Bus, train, and airplane expenses incurred between your business' "Tax Home" and your business destination. INTERCONNECT TRANSPORTATION Taxi, commuter bus, and limousine expenses. SHIPPING Costs associated with shipping business products along with your business travel, and/or any extra

costs charged to move your luggage.

VEHICLE

Rental car expenses, and/or business mileage incurred while away on travel. OVERNIGHT LODGING Applicable hotel charges, along with associated lodging expenses. MEALS Food, beverage, tax and tips--all subject to the 50% limitation. LAUNDRY AND CLEANING While on business travel, you can deduct any associated laundry and/or cleaning expenses you may

incur. COMMUNICATION Business telephone calls, mobile telephone, fax, and computer modem expenses. ANY OTHER NORMAL BUSINESS EXPENSES YOU INCUR WHILE TRAVELING ON

BUSINESS. Note: Establish your business' "Tax Home" for business travel purposes. Your business' "Tax Home" is your place of business (regardless of where you maintain your family residence). It includes the entire city, or general area of your business' premises. (Your personal residence may be your tax home.)

PLAN: Deduct Meals and Entertainment Business Expenditures--Subject to the 50% Limitation.

You are able to deduct 50% of your business' actual meals and entertainment expenditures while traveling. These relate to dollars spent to entertain and/or provide food to your business' prospects and actual customers.

Note: Be certain to breakout any "meals and entertainment" expenses from other deductible travel expenses to avoid having the 50% limitation apply to your business' total travel expenses.

To qualify your business' meals and entertainment expenditures as tax deductions, be certain that all of these expenditures meet the test for deductibility. Qualification requires that business meals and entertainment expenses be incurred so that they meet *all four* of the following test criteria:

That these expenses are made:

1. With the expectation that they generate income,
2. While actually discussing business, or during activities associated with the discussion of business,
3. When the business is the main purpose for the meeting,

and

4. on a business guest, plus you and your spouse.

Note 1: Even if some business meals and entertainment expenditures do not meet all four of these test criteria, your business may still be able to deduct food and entertainment expenses that were incurred during actual business discussions. As always, and particularly when dealing with exceptions to tax rules, proper documentation is essential.

Note 2: Substantiate the tax deductibility of your business' meals and entertainment expenses. In order for meals and entertainment expenses to be tax deductible business expenses, they must be ordinary and necessary business expenses, plus:

1. Directly related to the active conduct of your business, or
2. Directly preceding or following a substantial and bona fide business discussion on a subject that is "associated with the active conduct of your business.

(NOTE: This is referred to as the "Associated Rule" relating to business meals and entertainment expenditures; you are not required to actually discuss business during the meal, or entertainment activity, as long as you discuss business directly before or after the meal or entertainment event.)

Note 3: Justify the deductibility of your spouse' s business travel expenditures. New tax law requires you to justify the deductibility of your spouse' s travel expenditures on behalf of your business. Your spouse' s business travel is fully tax deductible under the following conditions *only:*

1. Your spouse is either an employee, or a co-owner of your business, and
2. There must be valid business reasons for your spouse to be traveling.

Note 4: Deduct travel costs associated with temporary business assignments. Your business can deduct living costs incurred while away from your tax home if the assignment is "temporary" in nature--less than one year in duration.

PLAN: Combine Tax Deductible Business-Related Travel With Your Personal Vacation Travel.

Business travel is 100% deductible, even when it is combined with nondeductible personal vacation travel. This is referred to as "Mixed Use" travel.

The big advantage of combining the two activities is that the costs associated with your travel to the "Business Destination" are 100% tax deductible, even if your vacation destination happens to be the same exact geographic location.

The types of travel that are particularly compatible with these mixed use (business and personal) trips include the following:

CONVENTIONS

Professional association meetings, sales meetings, and product knowledge sessions, such as those provided by your business' suppliers.

SEMINARS

Educational workshops, new product and/or service-related meetings, marketing technique training sessions, and other business retreats.

RESEARCH

Meetings to discuss existing and/or new products and/or services.

Note: Travel to research new business opportunities, such as starting up and/or buying a business, are not tax deductible.

BUYING TRIPS

Any trips you take to secure the purchase of products and/or services that your business offers.

SALES CALLS Expenditures associated with travel to and from prospective and/or actual

customers.

OWNER(S)' MEETINGS

Any "reasonable" travel expenses associated with legitimate owner(s)' meetings.
Note: Be certain that these meetings include other owner(s), if applicable, and are not located in luxurious settings, involving extravagant costs.

Business-related travel and lodging is 100% deductible; only portions of travel that relate to non-business (personal) activities are not deductible.

In order for your business to deduct the business portion of mixed use travel (business and personal), the travel must consist of business activities for more than 50% of the time.

Deduct travel costs associated with non-business weekend stay-over activities while you are on business trips. Weekends that occur while you are on business-related travel can be tax deductible if the following two circumstances apply:

1. Saturday and Sunday must occur in between legitimate business days,

and

2. It is in fact cheaper for you to stay at the business location of the weekend, rather than returning to your tax home, only to return to the business location in time for your Monday business-related activities.

PLAN: Deduct Traditional Recreation Food and Entertainment Expenditures as They Relate to Your Business' Activities. Traditional recreational expenses, such as company picnics and holiday parties, are fully tax deductible as employee benefits. This also includes *de minimus* employee fringe benefits such as holiday hams and turkeys.

The cost of attendance ticket packages to certain sporting events--organized to benefit tax-exempt organizations--can also be tax deductible as business expenses. The kinds of expenditures that *are not* included as potentially tax deductible business expenses include, but are not limited to, the following:

Yacht Expense Corporate Apartment Rent

Skybox Rental Costs Resort Cottages

Unusual Foreign Travel Memberships in

Travel-Related Social Clubs

PLAN: Document Your Business Travel and Entertainment
Expenditures to Achieve Maximum Tax Deductibility.
It is absolutely critical that you appropriately and completely document any and all travel and entertainment expenditures. Only in this manner can you qualify those expenses that can be taken as legitimate business tax deductions.

Proper documentation includes support for each expense item by providing adequate records or by sufficient evidence, oral or written that substantiates the deduction.

Whether your business has actual receipts for travel and entertainment expenses, or must rely on records that summarize the activities, the following information is essential in providing proper documentation:

The date incurred (time, day, and date)

The dollar amount of the expenditure ($)

Location of the activity

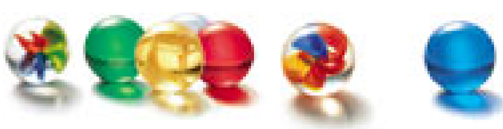
The names of the recipients of the travel and/or entertainment

The business relationship(s) of the recipients

The business purpose

Documentation can be achieved by using receipts, records, or a combination of the two.

Note 1: You are required to keep any and all travel and entertainment-related receipts, regardless of the dollar amount. Note 2: Be certain to break-out any "Food and Entertainment" expenses from other deductible travel expenses to avoid having the 50% limitation apply to your business' total travel expense.



EMPLOYING FAMILY MEMBERS

PLAN: Enjoy the Tax Benefits of Hiring Family Members by Understanding and Using the Eligibility Rules for Hiring Family Members.

The tax benefits of employing family members include the following:

1: The wages paid to family members are tax deductible to the business.

2: Wages paid to family members are "exempt" from some payroll taxes--depending on what form of organization your business is, and which family member receives the wages.

3: There are additionally very specific tax advantages to the family member receiving the wages.

Note: The term "Family Members" refers to individuals who have a family relationship with the owner(s) of the business, including children, spouses, and parents.

The eligibility rules for hiring family members require that *all four* of the following tests be met before wages paid by a business to a family member are considered "Tax Deductible" under the special rules for hiring family members.

Rule #1:

Family Business-The business, from which these wages to family members are paid, must be a "Family Business". A Family Business is defined as either:

A Sole Proprietorship, or A Partnership with all its partners

being part of the same family.

Rule #2:
Legitimate Job-The wages must be paid in payment for specific services that were actually provided by the family member to the business.

Rule #3:

Reasonable Wages-The wages must be equivalent to dollar amounts that would be paid to a non-family member for performing the identical job(s).

Rule #4:

Pay on Periodic Basis-The dollars paid as wages to family members must be paid on a periodic basis.

For example:

Weekly, semimonthly, or monthly. This rule is to discourage business owners from waiting until the end of the tax year before making decisions on the dollars to be paid to family members based solely on the tax liability situation of the business that year.

Once the above rules have been satisfied, these wages are eligible for the special treatment reserved for wages paid to family members.

PLAN: Take Advantage of Special Tax Treatment When You Pay Your Children to Work in Your "Family Business".

Note: A Family Business is one in which the owners of the business, a Sole Proprietorship, or a Partnership, are the parents of the children.

1. Children under age 18, working for a parent, can be exempt from Social Security taxes.
2. A dependent child can earn up to $4,000 (indexed to inflation each year) without owing any income tax.

Note 1: If your child earns less than $4,000 in any given year, your business is not required to withhold any Social Security tax (and is therefore not required to pay the employer's matching share) or any Federal Income Tax. Pay your child up to the standard deduction.

Note 2: This means that your business can pay each of your dependent children up to $4,000 as a salary, and your business can take a tax deduction for the entire amount. (The only exception to this is if your child has unearned (investment) income of $600 or more; then your child must file a Federal Income Tax Return whether or not your business pays them any salary at all.)

Note 3: You can still take the child as a dependent on your own individual income tax return (Form 1040).

3. Children under age 21 are not subject to Federal Unemployment Tax (FUTA), and they are also exempt from most State Unemployment taxes.

PLAN: Hire Your Spouse and/or Your Parents in Your "Family Business" to Gain Tax Advantages.

If your business is a family business (either a Sole Proprietorship or a Family Partnership where family members are the only partners), you can gain tax advantages from having your business hire your spouse.

Note 1: If your spouse is a partner in your family partnership, he or she cannot be paid wages or salaries (partners are prohibited from receiving wages or salaries from the partnership).

Note 2: If your business is a non-family business, with a form of business organization of either a non-family partnership, or a Corporation ("S" or "C"), the business must treat your spouse as a regular employee. (In these instances, your spouse works for the business entity and not you.)

The Tax Advantages

1. Wages or salaries paid to your spouse are exempt from Federal Unemployment Tax (FUTA), and most state unemployment tax as well.
2. Wages or salaries paid apply toward qualifying your spouse for Social Security benefits. (These wages and salaries are subject to Employment Income Taxes, such as Social Security and Medicare.)

Note 1: Deduct Training and Education Business Expenditures--necessary to improve or maintain skills required in your spouse's work for your business, as long as they do not qualify for a new trade or business. These expenditures are tax deductible to the business as well as tax free to your spouse.

Note 2: Create a "Child Care Credit" for You and Your Spouse--Wages paid to your spouse by your business are considered earned income, and therefore allow you and your spouse to meet the earned income test for qualifying for a child care credit.

Note 3: Hire Your Parents to Reduce Your Family's Total Tax Liability--If you were going to give your parents dollars ($) anyway, why not give them these same dollars and have your business take a tax deduction for them.

If your business hires your parents, the following tax benefits are created:

1. Wages and salaries paid to your parents are exempt from Federal Unemployment Tax (FUTA), and also from most state unemployment tax.

2. You have the opportunity to "Shift Income" from a higher tax rate (either your business and/or your personal income tax rate) to a potentially lower tax rate--your parents'.

Note: If your parents are age 65-69, they can earn $11,280 without a loss of Social Security Benefits. These benefits are reduced by $1 for every $3 of earnings above the limit. For those under age 65, the earnings limit is $8,160, with $1 of benefits lost for every $2 of earnings over the limit.

RETIREMENT PLANNING

PLAN: Know and Understand the Facts Regarding Retirement Plans Before You Make a Decision About Which Plan is Most Favorable for You and Your Business. Tax Deductible Retirement: A tax-deductible retirement plan has two major characteristics:

1. The dollars the employee puts into the plan are pre-tax, paid with nontaxable dollars,

and

2. The dollars the employer puts into the plan on behalf of the employee are tax deductible to the business.

Note: All retirement plans base the maximum dollar amount of employer and employee contributions on the dollar amount of participant compensation (earned income). For retirement plan eligibility purposes, earned income includes the following:

□. Sole Proprietorship or Partnership Net Profit
□. W-2 wages paid by the business. There are three major retirement plan types that are specifically designed for business owners:
□. SEP-Simplified Employee Pension: This retirement plan is sometimes referred to as an "SEP/IRA" because it uses Individual Retirement Accounts (IRAs) as the cornerstone of its plan.

The employer's maximum annual contribution for an SEP is 15% of compensation (up to $22,500); the employee's maximum annual contribution is 15% of compensation (up to $9,240).

A special form of SEP is called an SAR/SEP. The SAR/SEP is a salary deferral plan that allows the employee--at the beginning of the tax year and subject to limitations--to decide the dollar amount (if any) that he/she wants to have contributed to an SEP (instead of being paid cash, or receiving a raise).

*** 401(k) (Retirement Plan):** This plan is a qualified retirement plan--meaning that the business does not have to submit the plan to IRS for approval. The plan is based on deferred compensation. Contributions will be made out of the employee's pay, if the employee chooses to either reduce compensation or forego increases in pay. The employer is allowed to make contributions on behalf of the employees.

The employer's maximum annual contribution is 25% of compensation (up to $22,5000; the employee's maximum annual contribution is 25% of adjusted gross income, or 20% of gross income (up to $9,240).

Note: An Individual Retirement Account (IRA) can be combined with an SEP, an SAR/SEP, or a 401(k) retirement plan.

*** KEOGH:** Keogh Retirement Plans are available in three distinct modes--Money Purchase, Profit Sharing, and Defined Benefit Plan. Under a Keogh Plan, the employer's maximum annual contribution is 25% of compensation (up to $30,000).

Note: There is no employee contribution under a Keogh retirement plan.

* Keogh - Money Purchase: The employer contribution is a fixed dollar amount each year, regardless of profit. This mode of Keogh is commonly used for businesses that (a) need a maximum contribution, and (b) have predictable cash flows.

* Keogh - Profit Sharing: The employer contribution amount year-to-year is based on the profit of the employer, and therefore can vary considerably from one year to the next.

*Keogh - Defined Benefit: The employer's contribution is based on the dollar amount needed to provide a specific dollar benefit at the time the employee would anticipate retiring.

REDUCING TAXABLE INCOME

PLAN: Engage in Business Tax Planning Throughout the Tax Year to Reduce Taxable Income.

Tax planning refers to the process of trying to predict what the dollar amount of your business' taxable income will be, and the makeup of your business' tax remms that created the taxable income. One approach to handling your business' taxes is to wait until the end of the tax year, collect all relevant tax information and have your business income tax returns prepared.

The problem with this approach is that you have virtually no control over what your business' tax liability will be, and you will have to take your tax bill as it comes. By far, the better way to deal with business taxes is to engage in year-round "Tax Planning". Tax planning, to be truly successful, must continue on a monthly, or at least quarterly, basis throughout the year. **Note:** Implement the three steps required to achieve tax advantaged status for your business. **Step #1:** Review of previous years' tax returns. **Step #2:** Develop and implement a tax plan.

Step #3: Acquire Strategy and IRS code-based tax return preparation. PLAN: Decrease Your Business' Taxable Income By Shifting Income and Expenses into the Most Favorable Tax Year.

Under certain circumstances, it may be advantageous for you to consider shifting some of your business' income and/or expense items from one tax year to another. Although it is not always possible to do so, you should consider taking this action if you are able to reduce the combined tax liability for the two years in question. Even if all you do is defer tax due until the following year, this strategy is worth implementing.

This strategy is only applicable to your business if it is on a "Cash Basis" of accounting:

Cash Basis:	**Income**	=
	Expenses	=
Accrual Basis:	**Income**	=

Expenses

Cash Received

Cash Payments Made Cash Received + Credit Sales (Generating accounts receivables) Cash Payments Made + Credit Purchases (Generating accounts payables) One of the most useful applications of income and expense shifting is to defer income and accelerate

expenses--in a combined effort to shift taxable income from the current tax year to the next--assuming that your business' tax rate is not expected to be higher next year, to the degree that higher taxes due next year increase your business' total taxes due between the two years in question. Conversely, if your business' total tax liability is better served by keeping its taxable dollars in the current tax year, your business could attempt to shift taxable income back from next year to the current year.

Depending on whether you are shifting forward or back, you will use the following approaches:

Shifting Forward:

1. Delay cash receipts (by delaying billing)

2. Accelerate cash payments (by paying all legitimate current year expenses before the end of the current tax year)

Shifting Back:

1. Accelerate cash receipts 2. Delay cash payments

Note 1: Expenditures that qualify for accelerating or deferring include, but are not limited to the following: advertising, legal fees, accounting fees, and insurance. **Note** 2: The IRS can disallow deductions that are clearly attributable to another tax year, and/or income that is not recognized in the proper tax year.

PLAN: Calculate Your Business' "Tax Savings" as a Function of the Amount of the Deduction, and Your Business' Marginal Tax Rate. The greater the amount of your business' tax deduction, the greater the tax savings. The higher your business' "Marginal Tax Rate" (the tax rate applicable to the last dollar of taxable income), the greater the tax savings.

AVOIDING THE IRS

PLAN: Avoid Federal Tax Compliance Problems by Adhering to Internal Revenue Service Rules and Regulations.

As a business owner, you are required to adhere to the numerous Internal Revenue Service's (IRS) tax reporting requirements that apply to businesses. Ignorance is no excuse, and failure to comply is met by IRS imposed penalties and interest. If you fail to comply, the lump sum tax due, plus penalties and interest could be more than your business could financially withstand.

Therefore, you must adhere to IRS requirements, particularly in the areas of:

1. On time tax payments,
2. Avoiding the taking of improper tax deductions,

and

3. Meeting all tax reporting deadlines. **PLAN: Hobby**. Run Your Business Like a "Business" and not Like a Hobby The Internal Revenue Service uses, as a guideline, a working rule that if your business shows a

"profit" on its federal income tax return three out of five consecutive tax years, the IRS will assume your business is being operated as a "business", and not as a hobby.

However, if your business fails to show a profit three out of five consecutive tax years, the IRS will then look further for evidence that your business is being run as a business. If the IRS fails to find this evidence, they will conclude that this operation is not a business, but is in fact a "hobby", and they will not allow you to use any business losses to shelter any of your other taxable income.

If you can show that you conducted your activity in a "business-like manner", and intended to make a profit, you can have losses for many years.

The key, therefore, is to in fact run your business in a "business-like manner" with the objective of making a profit.

PLAN: Required. Order a Federal Tax Identification Number (ID#) When

The IRS requires that you have a Federal ID# under the following conditions:

When you have employees.

When you create an artificial business entity--such as a corporation or a partnership.

Note: If you are operating your business as a Sole Proprietorship and have no employees, you can use your own Social Security number as your business tax identification number. However, for personal security reasons, it is not an ideal situation for other individuals to know your Social Security number, as they could obtain copies of your personal financial information (such as your credit report) once they know this number. If you use a Federal ID#, instead of your Social Security number, you can avoid this kind of potential exposure of your personal information.

As a direct result of the IRS requirement, your local bank will also require that your business have a Federal Tax Identification number, in order for you to open up a business checking account.

There are two methods for obtaining a Federal Tax ID# for you business:

1. By completing and signing an SS-4 Form, and mailing it directly to the appropriate IRS Service Center,

and/or

2. By contacting the IRS by telephone, you can be assigned your Federal ID//on the spot. You are required to read aloud the information shown on the completed SS-4 Form. When the IRS verbally assigns your Federal ID#, you should write this number on the top right-hand comer of the SS-4 form, and mail this completed and signed SS-4 Form to the appropriate IRS Service Center.

Note: Under both of the above methods, the IRS will mail your business a written confirmation of the Federal ID#.

PLAN: Obtain a State "Sales Tax Number" (an "Exempt" Number) for Your Business if it is required to Collect State Sales Tax, or Purchase Goods for Resale.

If your business is located in a state that has state sales tax, there are two issues to address:

1. If you are required to charge sales tax on all taxable sales made by your business, then your business must pass through all collected sales tax dollars to the state, when due.
2. If your business purchases goods (inventory) for resale, it can avoid paying sales tax on these inventory items, when your business purchases them, by obtaining a sales tax exempt number from the state and showing this number to you inventory suppliers. This exempt number is a sales tax number. This means that your business is "exempt" from paying sales tax on the inventory it purchases because it will charge, collect, and remit to the state, sales tax on the items it sells to its customers.

PLAN: Keep a Federal Tax Forms Due Date Schedule Handy as a Guide to Timely Tax Form Filing. Some of the federal taxes for which Sole Proprietorship, a Corporation, or a Partnership may be liable are listed below on the "Federal Tax Form(s) Due Date Schedule" included for your use.

Note: if a due date falls on a Saturday, Sunday, or legal holiday, it is postponed until the next day that is not a Saturday, Sunday, or legal holiday. (A statewide legal holiday delays a due date only if the IRS office where you are required to file is located in that state.)

You may be liable for: Income Tax Self-Employment Tax Estimated Tax Annual

Return of Income Social Security (FICA) Tax and Withholding of Income Tax

Providing information on Social Security (FICA) Tax and Withholding of Income Tax

Federal Unemployment (FUTA) Tax

The following are lists of possible deductions. The lists are only meant to give you ideas, or steer you in the right direction. They are not all-inclusive and not all items are deductible all the time. Many are subject to limitations, may only apply in certain situations or are governed by other rules. Please keep careful records and save your receipts for 3 years in case of audit.

Business Expenses

Expenses you Cannot Deduct

Miscellaneous Schedule A Expenses

Medical Expenses

Business Expenses

Employees:

Includes expenses for your job for which you weren’t reimbursed, but you only get the amount in excess of 2% of your AGI (adjusted gross income), and only if you can itemize. For instance, if your AGI is $100,000, you must have at least $2000 in employee business expenses before you will begin to benefit from the deduction.

Self-Employed:

You are allowed to deduct most business expenses in full.

See IRS Publication 535 for more information.

Advertising and Promotion Expenses (Self-employed)

Books and Publications

Books, trade journals, newspapers and publications for your trade or profession

Dues and Fees:

Dues to a professional organization for people in your profession Union dues, initiation fees, and assessments for benefit payments to unemployed union members. Regulatory fees for your profession Dues to chambers of commerce and similar organizations if the membership helps you carry out your job duties (see exceptions). Licenses paid to state or local governments

Education and Research

Educational expenses related to your present work that maintains or improves your skills.

Research expenses

Equipment and Supplies

Business use of computer. Employees: Must be for the convenience of your employer and required as a condition of your employment.

Supplies and tools you use in your work

Home Office

Expenses for an office in your home IF part of the home is used regularly and exclusively for your work. Employees: the use of your home office must also be for the convenience of your employer.

For more information, see IRS Publication 587

Internet

Employees: Must be for the convenience of your employer and required as a condition of your employment.

Job hunting expenses (Employees)

To deduct job-hunting expenses, you must be looking for a job in your present line of work (i.e., you're not changing professions or looking for your first job).

Expenses include:

Resume preparation (drafting, typing, printing, mailing, faxing) Employment agency fees

Executive recruiters' fees Portfolio preparation costs Career counseling to assist you in

improving your position Legal and accounting fees you pay in connection with employment

contract negotiations and

preparation Advertising Transportation costs to job interviews Long distance calls to prospective employers Newspapers you purchase to read the employment ads

Other business publications you purchase to read the employment ads

Half of your meals you pay for that are directly related to your job search

If you take a trip away from home to look for a new job, your expenses for traveling, lodging, meals (50% of the cost), etc. are deductible only if the primary purpose of your trip is to look for a job. To substantiate the purpose of your trip, keep a daily log of your interviews, application efforts, etc.

Meals and Entertainment

Meals and Entertaining costs (only 50% of the cost is deductible). Keep a record of the date, place, people present, and business discussed.

For more information, see IRS Publication 463

Telephone Charges

Business use of cellular phone Cost of long-distance

business calls charged to home phone Separate business

telephone

Travel and Transportation

Traveling costs incurred while away from home on business Traveling costs paid in connection

with a temporary work assignment Transportation between your home and a temporary work

location if you have no regular place of
work but you ordinarily work in the metropolitan area where you live and the temporary work location is outside that area Transportation between your home and a temporary work location if you have at

least one regular workplace for this employment. It doesn't matter how far away the temporary

location is in this case.

Transportation from one job to another if you work two places in one day

If you are self-employed and your home is your principal place of business, all business travel is deductible. For more information, see IRS Publication 463

Uniforms and Gear

Protective clothing and gear

Uniforms (except if you're full-time active duty in the armed forces) Dry cleaning costs for your uniforms or protective clothing (not for your everyday clothing, though) Specialized clothing designed for your job, as long as it's not suitable for everyday wear Safety equipment, such as hard hats, safety glasses, safety boots, and gloves

Miscellaneous

Gifts, but only up to $25 per recipient Passport for business travel Postage Office supplies Printing and copying Legal and professional services (tax preparation fee) Medical exams required by your employer Occupational taxes if they're charged at a flat rate by your city or other local government for the

privilege of working in that area Business liability insurance premiums Job dismissal insurance premiums Damages you pay to a former employer for a breach of employment contract Employee contributions to state disability funds

Self-Employed Only

Interest on business loans Self-Employed health insurance (partial) Commissions and fees Business insurance Keogh or SEP contributions Rental of business property Office rent and utilities

Repairs and maintenance

Business taxes and licenses

Expenses You Cannot Deduct

People commonly hope to deduct some of the following expenses, but unfortunately they are not deductible.

Non-Deductible Expenses:

Clothing that is adaptable to everyday wear (this includes suits, evening wear, etc.).

Commuting costs (subways and rail fares, tolls, gasoline, and parking). Dues to country clubs, golf and athletic clubs, and airline and hotel clubs. Home phone line Job-hunting expenses if you’re looking for your first job, or changing professions. Dry cleaning and laundry (unless you’re on a business trip) Legal fees and closing costs involved in purchasing a property Fees for taking an exam to qualify you in a profession (e.g., Bar Exam, GRE, etc.) Immigration visa expenses, such as for obtaining a Green Card or H-1B visa. Moving expenses that were not associated with your job and were less than 50 miles. Interest on personal loans. Support of family members, unless they qualify as your dependents. Lunch on the job. Undergraduate tuition and fees (must take Lifetime Learning or Hope Credit) Education that does not maintain or improve skills in established job. Personal vacations. Cosmetic surgery to improve personal appearance Contributions made to individuals or foreign charities. Expenses that were reimbursed by your employer.

Student loan interest if adjusted gross income is greater than $65,000 (single) or $130,000 (married).

Student loan principal.

Miscellaneous Schedule A Expenses

Real estate expenses:

Mortgage interest Mortgage prepayment penalties Penalties of early withdrawals Points on principal residence financing Real estate taxes

Auto registration fees

Charitable contributions (cash and non-cash) made to qualified U.S. charities.

In**vestment expenses:**

Accounting fees (preparation of tax return)

Brokerage fees

Investment fees

Legal fees

Safe deposit box rental

Interest on margin accounts

Taxes

Ad valorem tax Certain special assessments Condo or coop maintenance (property tax portion) Disability insurance tax (some states) Foreign taxes Income tax (state and local) Occupational taxes

Personal property tax
Real property tax
State transfer tax
Withholding taxes

Casualty and theft Losses

Qualified Medical Expenses

Generally, you can only deduct the excess over 7.5% of Adjusted Gross Income, and then only if you can itemize on Schedule A. This means that if you make $100,000, you can only deduct the amount of medical expenses you spent
over $7,500. Acupuncture Air conditioner necessary for relief from allergies or other respiratory problems Alcoholism treatment Analysis Artificial limbs Artificial teeth Birth control pills prescribed by a doctor Braille books and magazines used by a visually-impaired person A clarinet and lessons to treat the improper alignment of a child's upper and lower teeth Contact lenses Cosmetic surgery to improve a deformity Dental fees and supplies Diet, special. When prescribed by a doctor, you can deduct the extra cost of purchasing special food to

alleviate a specific medical condition. Doctor or physician expenses Drug addiction treatment Elastic hosiery to treat blood circulation problems Exercise program if recommended by doctor to treat a specific condition Extra rent/utilities for a larger apartment required in order to provide space for a nurse/attendant

Eye surgery, when it is not for cosmetic purposes only Guide dog Hospital care Household help for nursing care services only Insurance premiums for medical care coverage Laboratory fees Lead-based paint removal where a child has or had lead poisoning Legal fees paid to authorize treatment for mental illness Lifetime care advance payments Lodging expenses while away from home to receive medical care in a hospital or medical facility Long-term care insurance and long term care expenses (with limitations) Mattresses and boards bought specifically to alleviate an arthritic condition Medical aids. This includes wheelchairs, hearing aids and batteries, eyeglasses, contact lenses,

crutches, braces, and guide dogs (including costs paid for their care).

Medical conference admission costs and travel expenses for a chronically ill person or a parent of a chronically ill child to learn about new medical treatments.

Medicines and prescription drugs

Nursing care.

Nursing home expenses if the there to obtain medical care.

Oxygen and oxygen equipment.

Reclining chair bought on a doctor's advice by a person with a cardiac condition.

Special education tuition of mentally impaired or physically disabled person.

Smoking cessation programs.

Swimming costs, if therapeutic and prescribed by a physician.

Telephone cost, repair and equipment for a hearing-impaired person.

Television equipment to display the audio part of a TV program for hearing-impaired persons.

Transplants of an organ, but not hair transplants.

Transportation costs for obtaining medical care.

Travel expenses for parents visiting their child in a special school for children with drug problems, where the visits are part of the medical treatment.

Weight loss program, if it is recommended by a doctor to treat a specific medical condition or to cure any specific ailment or disease Whirlpool baths prescribed by a doctor. Wig for the mental health of a patient who lost his or her hair due to a disease. X-ray services.
