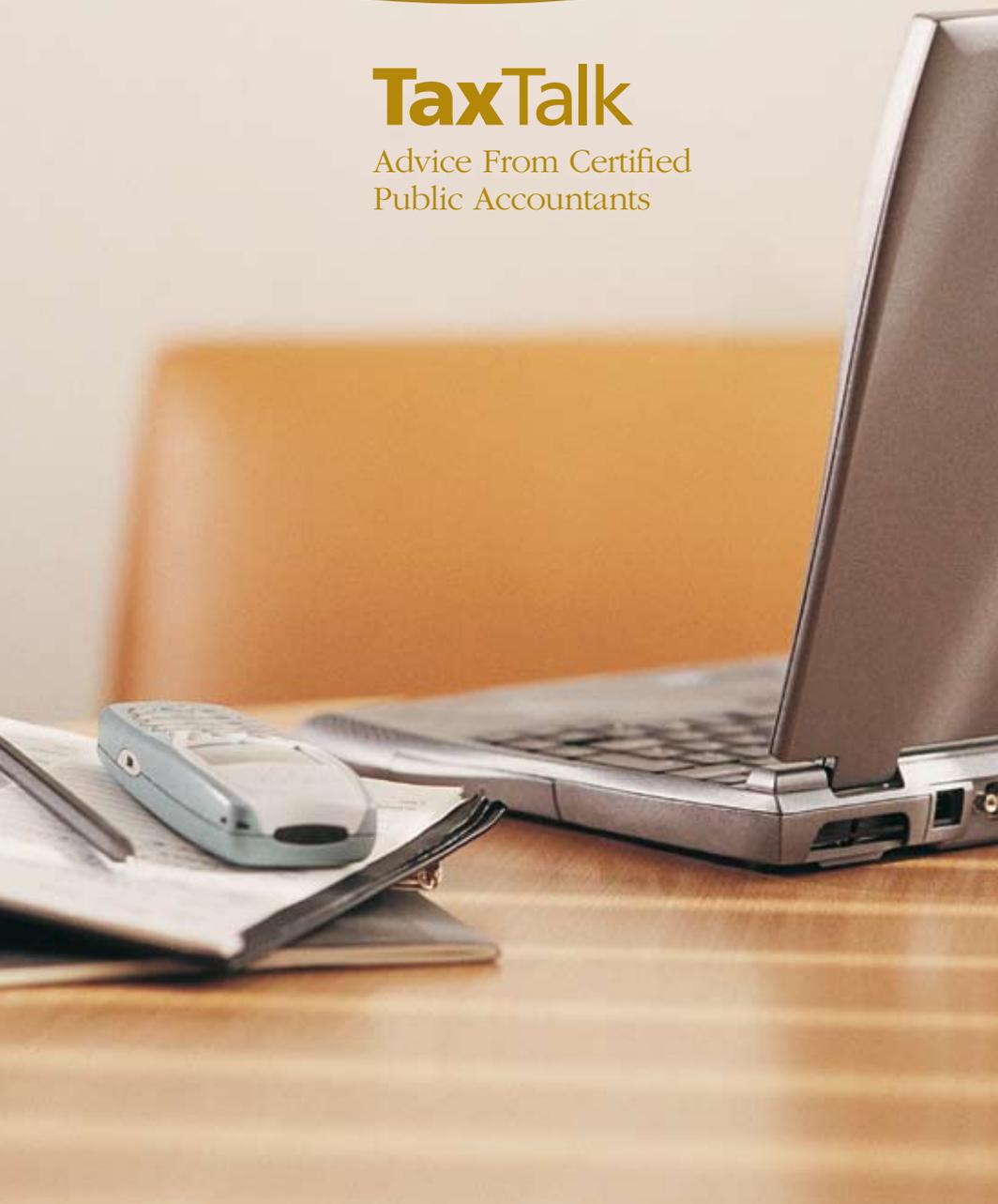




NASE Answer Desk

TaxTalk

Advice From Certified
Public Accountants



When it comes to taxes, let the TaxTalk CPAs help you find the right answers.

Online:

- Go to www.NASE.org
- In the Quick Link box, enter "TaxTalk"



NOTE: NASE TaxTalk provides financial and business information pertinent to micro-business owners and the self-employed. It is not intended to replace the role of the tax professional in your business matters. As always, it is recommended that you consult with your own business professionals for advice regarding your specific facts and circumstances.

The certified public accountants (CPAs) at TaxTalk can help you save time, money and headaches when it comes to micro-business tax issues.

Every year these CPAs answer more than 10,000 questions from micro-business owners across the country. They can answer your tax questions, too.

Want to reduce the taxes you pay? The TaxTalk CPAs can show you legitimate deductions you might be missing. Don't know which tax forms your micro-business should file? The CPAs are ready with answers. Need help calculating your deductible expenses for business travel? The TaxTalk advisors can help you crunch the numbers.

No tax issue is too complicated for the TaxTalk CPAs.

If you're hiring your first employee, the CPAs can help you understand payroll taxes and tax withholding rules. If you're unsure about the home office deduction, the TaxTalk advisors will explain the tax regulations you need to know. If you're confused about self-employment taxes, the CPAs at TaxTalk will give you straightforward answers that you can understand.

These CPAs offer years of hands-on experience with micro-business tax planning. They're up to date on the newest tax laws. And they know you need fast, accurate answers to all of your tax questions.

Tax ID Number

I just started my new business as a sole proprietorship. Do I need to get a tax ID number for the business?

As a sole proprietor, you'll only need to get a federal employer identification number (EIN) if you will have employees. If you don't expect to hire employees, you don't need an EIN.

The income and expenses for your business will be reported on Schedule C, Profit or Loss from Business, which will then be attached to your personal income tax return. If you don't use an EIN, the tax ID number on Schedule C will be your personal Social Security number.

If you expect to hire employees, you can easily get an EIN by completing IRS Form SS-4, Application for Employer Identification Number. You can even get the number over the phone. Download a copy of the form and detailed instructions from the IRS Web site, www.irs.gov.

Business Checking Account

Does the IRS require that I have a separate checking account for my business, or can I just use my personal account?

There is no formal IRS requirement that your business maintain a separate bank account.

However, keeping your personal activity and the activity of the business separate is critical to maintaining accurate accounting and tax records. Having different checking accounts for personal and business finances is the first step to separating those activities.

You should open a checking account specifically for your business. Deposit all business receipts and pay all business expenses from that account.

Self-Employed Income

I provide computer consulting services to some friends who pay me for helping them, but I don't really own my own business. I only earn about \$6,000 a year from those services. Do I have to report this money on my tax return?

If you provide services for which you receive compensation, other than as an employee, then, in fact, you do own your own business. Congratulations!

You don't need to file any paperwork, register with the IRS, or notify any other government agency to be self-employed. If you are paid for your services, then you are self-employed.

You must report any income and expenses associated with your trade or business on Schedule C, Profit or Loss from Business.

If you have annual net earnings of at least \$400 from the business, you'll also need to complete Schedule SE, Self-Employment Tax.

You can download both forms and detailed instructions for free from the IRS Web site at www.irs.gov.

Barter Income

I cut a deal with a cabinet maker to install new cabinets in my kitchen in exchange for some plumbing work at his place of business. Since no money changed hands, do I have to report this on my tax return? If so, how much do I include?

Exchanging goods or services is called bartering, and is taxable income to both parties.

You must report barter income on your tax return just as you would other income that you generated during the year. You should complete Form 1099-B, Proceeds From Broker and Barter Exchange Transactions, to document the value of the exchange. That value should be based on the fair market value of the services you provided.

For example, if you provided four hours of plumbing services related to this exchange, then you should report the fair market value of those four hours of service. The bottom line is that the services are indeed taxable income even if the payment was in a form other than cash.

Income Reporting

I received income from several clients, but didn't get 1099s from them. Do I have to include those amounts on my tax return?

Yes, all of the money that you received in connection with your trade or business should be reported on your tax return as gross receipts from the activity.

The fact that you didn't receive a 1099 or that a 1099 may not have been required, doesn't change the fact that you are responsible for reporting all of the income that you received.

Tax Deductions

I'm newly self-employed. How can I educate myself about tax deductions?

Believe it or not, one of the best places to start is with the IRS. The agency's Web site, www.irs.gov, offers free publications to help you stay on top of tax issues. You can also download tax forms with instructions.

I suggest you start by getting these publications:

- Publication 334, Tax Guide for Small Business
- Publication 463, Travel, Entertainment, Gift, and Car Expenses
- Publication 505, Tax Withholding and Estimated Tax
- Publication 587, Business Use of Your Home

Home Office Deduction

I work from my home. But I don't own the house, I rent it. Can I still claim the home office deduction?

If you use a portion of your home regularly and exclusively for business, then you qualify for the home office deduction, even if you rent your house.

The exclusive part is usually the more difficult of the two requirements to meet. This means that the space can be used only for business and have no other personal usage.

For example, if the room you use for your office has a TV that your kids use to play video games, then the space would not qualify for the home office deduction.

If your business space meets the regular and exclusive requirements, all of the costs associated with maintaining that portion of your home are deductible, including your rent and utilities.

The deductible amount is based on the business percentage of the use of the home.

For example, if your office is 200 square feet, and your total house is 1,800 square feet, your office percentage is 11.1 percent (200 divided by 1,800.) Therefore, 11.1 percent of the costs of maintaining your home would be deductible as a business expense.

You report those deductible expenses on Form 8829, Expenses for Business Use of Your Home, and attach it to your tax return. You can download the form and Publication 587, Business Use of Your Home, at www.irs.gov.

Home Office Space

I work out of my home. I don't have a separate room that I use for my business, but I do have a portion of my den segregated solely for my business. Can I claim the home office deduction?

There is no requirement that the space used as a home office be located in a separate room to qualify for the home office deduction. The space need only be used regularly and exclusively for business.

As long as the space is indeed segregated from the rest of the room and is only used for business, the space qualifies for the home office deduction.

Automobile Deduction

How do I calculate the tax deduction for using my car in my business?

There are two methods for determining the amount of the deduction for the business use of your vehicle.

The standard mileage rate method is the easiest and most commonly used method. Under this method, the deduction is based on a set rate per mile multiplied by the total business miles that you drive during the year. Each year, the federal government sets the mileage rate. For instance in 2006, the rate was 44.5 cents per mile. To figure your deduction that year, you would have multiplied the number of business miles you drove by 44.5 cents per mile.

Under the actual expense method, you track the total expenses related to the operation of the vehicle. These expenses include gas, oil, insurance, repair and maintenance, depreciation, registration fee, lease payments, etc. The total expenses are then multiplied by the business percentage of total miles driven.

Regardless of which method you use, keep a mileage log.

Start your log each year by noting the current mileage on your vehicle. Keep track of the miles you drive for business, noting the date, business purpose and number of miles driven. At the end of the year, note the final total mileage on your vehicle.

This log will show the number of miles you drove related to business as well as the total miles driven. You can then determine the percentage of business use for the vehicle or the total number of business miles to calculate your tax deduction.

Estimated Taxes

As a micro-business owner, do I have to file quarterly estimated taxes?

Whether or not you need to make quarterly payments is determined by your family's total tax position, not just the business.

If you have enough earnings from your business, you may have to make quarterly estimated tax payments. But, if your family has enough withholding from other jobs to cover your tax liability, then you would not have to make quarterly payments.

Your estimated taxes should reflect your family's total expected tax liability. That tax liability will depend on things such as amount of family income, itemized deductions, number of children and amount of business expenses.

To determine the amount of your estimated tax payments, prepare a comprehensive tax estimate. Calculate how much money you'll earn for the year and the amount of your deductions. As a self-employed individual, you're responsible for self-employment tax as well, which should be part of your tax estimate. Also figure withholding payments from a job where the employer withholds taxes, including your spouse's withholding.

This is like preparing a tax return for the year based on estimated numbers. After you complete the estimate, structure your estimated tax payments so that you pay enough to avoid underpayment penalties that the IRS might impose.

For more information, download IRS Publication 505, Tax Withholding and Estimated Tax, from www.irs.gov.

Retirement Contributions

I currently contribute to a Simplified Employee Pension (SEP) through my business. Can I also contribute to a traditional individual retirement account (IRA)?

The fact that you are covered by a qualified retirement plan such as a SEP does not preclude contributions to a traditional IRA.

Therefore, you can make contributions to a traditional IRA provided that you meet certain requirements. A SEP is considered a retirement plan, so the adjusted gross income (AGI) limitations have to be considered.

If your AGI, which is computed after the SEP contributions, is in excess of those limits, then the IRA contribution that you make would not be tax deductible. If you have too much in earnings, the IRA contributions may be limited or eliminated all together.

You can find information about the AGI limits in IRS Publication 590, Individual Retirement Arrangements (IRAs). Download the publication for free at www.irs.gov.

Get Your Questions Answered

How To Ask TaxTalk Your Questions



Go to the NASE Web site at www.NASE.org. In the NASE Quick Link box, enter "TaxTalk."

Or you can:

Go to the NASE Web site at www.NASE.org. On the Business Resources tab drop down menu, click "TaxTalk."

Use TaxTalk as an NASE Member or guest.

Fill in your contact information and ask your question.

You'll receive an e-mail when your TaxTalk reply is ready. Follow the link in the e-mail to your secure online answer.

It's that easy!

Get More Answers From The NASE

Business Advice From ShopTalk 800

The professional consultants at ShopTalk 800 offer straightforward answers to the most perplexing micro-business questions.

- **Should I incorporate?**
- **How do I choose a retirement plan?**
- **Can I get a grant or loan for my business?**
- **What's a low-cost way to market my business?**
- **How do I pay myself?**

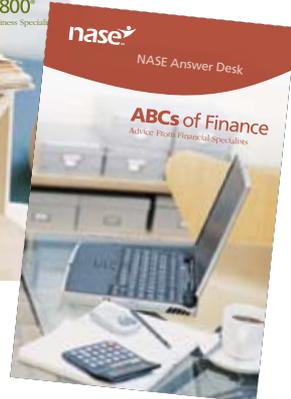
NASE Members can ask specific questions and get confidential answers via e-mail or telephone. Best of all, an NASE Membership gives you unlimited access to the ShopTalk 800 consultants at no additional cost.

Accounting Advice From ABCs Of Finance

If you have questions about accounting, bookkeeping and cash management issues, ABCs of Finance has the answers.

- **How can I improve my cash flow?**
- **Is it better to lease or buy equipment for my business?**
- **How do I create a business budget?**
- **What financial documents do I need for a bank loan?**
- **What's the best way to track accounts receivable?**

NASE Members have unlimited access to this financial advice at no additional cost. Submit your question using the online form and you'll receive a complete answer within business one day.



Estate Planning Advice From EstateTalk

Get online advice about wills, trusts, guardianships, estate taxes and more from a licensed attorney.

- **Why do I need a will?**
- **How can I avoid estate taxes?**
- **Can I leave my business to my children?**
- **Who should I name as executor of my will?**
- **What is a living trust?**

Protect your family's future by getting answers to important estate planning questions. An NASE Membership gives you unlimited access to an EstateTalk attorney at no additional cost.



Five Reasons You Should Join The NASE

The NASE delivers the tools, benefits and resources you need to succeed as an entrepreneur.

1. **Unlimited access to professional consultants who can answer your business questions, at no additional cost**
2. **Savings on technology, payroll services, e-commerce solutions and more to help your micro-business grow**
3. **Access to affordable health insurance and life insurance to protect you and your family**
4. **Roadside assistance, identity theft protection and home office coverage to give you a safety net when you need it most**
5. **Emergency room and hospital confinement benefits to assist you if the unexpected happens**

Become part of an association that serves more than 200,000 members nationwide. Make a smart choice for you and your micro-business.



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