

# ***FIRSTAX SAVES YOU TAXES!***

**A TAX SAVINGS WORKBOOK  
FOR BUSINESS PROFESSIONALS**

**P r e s e n t e d   B y**

***FIRSTAX, L.P.***

**Your “*TAX ADVISORS FOR LIFE*”**

**1010 LAMAR, #670  
HOUSTON, TX 77002-6311  
(713) 781-9999 (Tel.)  
(800) 781-9996 (Tel.)  
(713) 951-0150 (Fax)  
[taxsavings@firstax.com](mailto:taxsavings@firstax.com) (e-mail)  
[www.firstax.com](http://www.firstax.com) (web-site)**

## **OVERVIEW**

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### **INTRODUCTION:**

**The tax savings** available to every Business Professional **are amazing!** When properly documented, those tax savings can actually become another avenue of income from your small business. To ensure that you get the maximum tax savings from your business, we have prepared this summary workbook that is designed to assist you with understanding some of the basic tax issues that Craig Foster, of FirsTax, L.P. discusses in his seminars. Let's review some of the fundamental points about your business and the tax ramifications:

### **KEEP GOOD RECORDS:**

For maximum tax savings, **KEEP GOOD RECORDS!** Our clients who keep their tax documentation top-to-bottom, left-to-right, alphanumeric, oldest-to-newest, get more deductions than those who don't. Significantly more! Keeping good records also assures you of minimum hassles should the IRS decide that it's your turn for an audit. Everything we discuss in this workbook is allowable as a deduction by the Internal Revenue Code if you **KEEP GOOD RECORDS!**

If you spend five (5) minutes per day filing receipts and keeping up with your records, you won't have to spend five (5) days before April 15 each year trying to get it all together! In addition, when you keep track of your expenses as you go along, your memory won't have to stretch back very far to remember things a year or more ago.

## **OVERVIEW**

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### **FORMS NEEDED:**

Every Business Professional, no matter how large (or small) must file IRS Form 1040 (long-form), federal individual income tax return for each year (or part of a year) they are in business. In addition, you will usually file Schedule C, SE, 4562, and 8829 (at a minimum) and perhaps other forms on more complicated tax returns. If you are married, filing jointly, then these schedules will be attached to the tax return you file with your spouse.

### **CONVERTING PERSONAL (NON-DEDUCTIBLE) EXPENSES TO TAX-DEDUCTIBLE BUSINESS EXPENSES:**

It is possible (even likely) that as a Business Professional, you may have a tax loss in your first year or two of business. This doesn't mean that you necessarily lost money! Many of the items you deduct on your tax return are items that you've always been paying even before you started your business. Examples are your automobile expense, office-in-the-home expense, entertainment, travel, etc. By KEEPING GOOD RECORDS, you're using your business to convert previously non-deductible personal expenses into tax-deductible business expenses. And, with some minor exceptions, that loss is deductible against any other income that your family reports on its tax return!

### **SUMMARY:**

By properly documenting auto, office-in-the-home, inventory management, and other ordinary and reasonable business expenses, you'll truly see how **tax savings really are another avenue of income when you become a Business Professional.**

**AUTOMOBILE EXPENSES**

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**DRIVING YOUR OWN  
AUTOMOBILE:**

There are two (2) alternate methods to calculate the tax deduction for the business use of your personally owned, or leased, automobile:

- The “per-mile” method, or
- The “actual expense” method

Either way, **YOU MUST KEEP A LOG OF THE MILES YOU DRIVE THAT ARE BUSINESS RELATED!**

This includes:

- **WHO** you drove to see
- **WHY** you drove to see them (the business purpose)
- **HOW MANY MILES** you drove
- **THE DATE** you drove

A Mileage Log is a “must”! Buy one from an office supply store and use it!

If you use the “per mile” method, once you have computed the number of business-related miles driven, you take the number of business miles times \$.48½ per mile (2007).

Business miles \_\_\_\_\_

X\$.485= \_\_\_\_\_ (Deduction)

**TYPICALLY, THE “ACTUAL  
EXPENSE” METHOD WILL GIVE  
YOU A HIGHER TAX DEDUCTION!**

If you use the “actual expense” method, you must also compute the TOTAL number of miles you drove your car in the year. Then divide the Business miles by the Total miles to get the BUSINESS %.

Business  
miles \_\_\_\_\_  
÷ Total miles \_\_\_\_\_  
= \_\_\_\_\_ (Business %)

You must also compute the actual expenses of operating the vehicle for the ENTIRE YEAR!

Gasoline.....\$ \_\_\_\_\_  
Repairs/Maintenance.\$ \_\_\_\_\_  
Insurance.....\$ \_\_\_\_\_  
Interest on Car Loan...\$ \_\_\_\_\_  
License/Inspections....\$ \_\_\_\_\_  
Lease Payments.....\$ \_\_\_\_\_  
Other.....\$ \_\_\_\_\_

Total Expenses \$ \_\_\_\_\_

x Business % \_\_\_\_\_

= \$ \_\_\_\_\_ (Deduction)

**AUTOMOBILE EXPENSES**

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You must keep separate records of expenses on each different vehicle if you use the "actual expense" method, and you use more than one car in your business!

**PLEASE NOTE THAT YOU ARE ALLOWED TO TAKE THE HIGHER OF THE TWO (2) METHODS DESCRIBED ABOVE! HENCE, YOU SHOULD FIGURE IT BOTH WAYS TO MAKE THAT DETERMINATION.**

If you own your vehicle (as opposed to leasing it), you also should calculate the depreciation deduction available to you. However, depreciation is an exceedingly complex area and beyond the scope of this workbook to discuss in detail. **Please call FirsTax at (713) 781-9999 or (800) 781-9996 for additional information.**

**DRIVING A LEASED CAR:**

If you're driving (or getting ready to drive!) a leased car, you still have tax deductions available to you if you **KEEP GOOD RECORDS!**

All items of expense related to the leased car should be kept just as in the case of an owned car. The only difference is that with a leased car you'll substitute the lease payments expense for the interest and depreciation on the owned car.

You'll be directly paying for:

Gasoline.....\$\_\_\_\_\_

Repairs/Maintenance...\$\_\_\_\_\_

Insurance.....\$\_\_\_\_\_

Lease Payments.....\$\_\_\_\_\_

Other.....\$\_\_\_\_\_

Hence, driving a leased car is also very tax-advantageous!

## **OFFICE-IN-THE-HOME EXPENSES**

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**DON'T LET ALL OF THE PUBLICITY REGARDING THE OFFICE-IN-THE-HOME ISSUE CONFUSE YOU INTO THINKING YOU'RE NOT ENTITLED TO THIS DEDUCTION!**

### **INTRODUCTION:**

To take the office-in-the-home tax-deduction, you must have a separate and distinguishable part of your residence that you use strictly for your business and **NO OTHER PURPOSE!** In addition, since the landmark Supreme Court ruling in early 1993, the office-in-the-home deduction is now being interpreted to mean that it is limited to those business owners who spend a substantial amount of their time doing business from their office-in-the-home. Since January 1999, the rules regarding the office in home have been substantially liberalized. Call your FirsTax Professional today to determine the details.

Hence, many part-time Business Professionals should not plan to use this deduction. But, most full-time Business Professionals may legally qualify for the tax deduction of the office-in-the-home.

### **FORMS USED:**

You will want to use IRS Form 8829 to make your computation of the office-in-the-home deduction. You must attach Form 8829 to your tax return in the appropriate place when it is completed.

### **METHODS AVAILABLE:**

Once you have determined that you are entitled to take an Office-in-the-Home tax deduction, you must calculate the business percentage of your home that is used for the business.

There are two (2) alternative methods to calculate the tax deduction for the business use of your residence:

- The "number of rooms" method
- The "square footage" method

Either way, **YOU MUST HAVE A SEPARATE AND DISTINGUISHABLE PART OF YOUR RESIDENCE THAT IS USED STRICTLY FOR YOUR BUSINESS AND NO OTHER PURPOSE!**

If you use the "number of rooms" method, you must determine the number of rooms in your residence used strictly for your business. Then you must determine the total number of rooms in your residence (not including bathrooms, hallways, and closets) to get the **BUSINESS %**.

**OFFICE-IN-THE-HOME EXPENSES**

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Business number of rooms \_\_\_\_\_  
÷ Total number of rooms \_\_\_\_\_  
= \_\_\_\_\_ (Business %)

If you use the “square footage” method, you must determine the square footage of the area of your residence used strictly for your business. Then you must determine the total square footage of your residence to get the BUSINESS %.

Business square footage \_\_\_\_\_  
÷ Total square footage \_\_\_\_\_  
= \_\_\_\_\_ (Business %)

**WHICHEVER METHOD GIVES YOU THE HIGHER % , USE IT!**

**EXPENSES TO RECORD:**

You must also compute the total actual expenses of operating your residence for the time in which it was used as a business.

If you are purchasing your home:

Home Mortgage Interest...\$ \_\_\_\_\_  
Home Taxes.....\$ \_\_\_\_\_  
Insurance.....\$ \_\_\_\_\_  
Repairs & Maintenance...\$ \_\_\_\_\_  
Improvements.....\$ \_\_\_\_\_  
Utilities.....\$ \_\_\_\_\_  
Other.....\$ \_\_\_\_\_

OR if you are renting your home:

Rent.....\$ \_\_\_\_\_  
Repairs & Maintenance.\$ \_\_\_\_\_  
Improvements.....\$ \_\_\_\_\_  
Insurance.....\$ \_\_\_\_\_  
Utilities.....\$ \_\_\_\_\_  
Other.....\$ \_\_\_\_\_

If you own your home, or, if you have acquired new furniture, fixtures, and equipment, you should also calculate the depreciation deduction available to you. However, depreciation is an exceedingly complex area and beyond the scope of this workbook to discuss in detail. **Please call FirsTax at (713) 781-9999 or (800) 781-9996 for additional information.**

## **INVENTORY MANAGEMENT COSTS**

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### **INTRODUCTION:**

Inventory is not deductible when you buy it – it's tax-deductible when you sell it! However, sales aids are fully tax-deductible when purchased. All of the freight and handling charges associated with your order also are tax-deductible. And, sales taxes paid with your inventory orders also are fully tax-deductible if you record the sales tax you collect from your customers in income.

Be sure to keep the packing lists that are sent with each product order you place. At the end of the year, those packing lists should be used to total your inventory purchases, the freight and handling costs paid, and the state and local sales taxes paid.

### **FORMS USED:**

You will use IRS Schedule C, page 2 to record inventory purchases, beginning inventory, and, ending inventory. Use IRS form Schedule C, page 1 "Other Expenses" for all other items deductible as inventory management costs.

### **TAKE A PHYSICAL INVENTORY:**

At the end of each calendar year, **YOU MUST PHYSICALLY COUNT YOUR INVENTORY!** Then you must assign the per unit wholesale cost to each item on your inventory and calculate the total wholesale value of your inventory remaining on your shelf at year-end.

The easiest way I know to "count your ending inventory" is to use your product order form as your inventory checklist. Record the number of each kind of product you have in inventory at the end of the year. Multiply the number of each product by its wholesale value. Add up all of the wholesale values on your list. Remember, you do not need to take an inventory of any of your sales aids items at year-end as they are fully tax-deductible during the year you bought them!

## **OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES**

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### **OTHER COSTS RELATED DIRECTLY TO YOUR BUSINESS:**

- **Meeting Costs**

1. Business Professionals can deduct the cost of attending meetings, training, etc.

- **Telephone**

1. Long-distance business calls itemized on your home telephone (the base-line charge on your primary home telephone is NOT deductible!)
2. Special services and equipment acquired for your home telephone such as “call forwarding, call waiting, call conferencing”, voice mail charges, answering machines utilizing a business message, etc.
3. A separate business line set-up at your home for your business.
4. Cellular telephone costs such as air time, the percent of the base charge that is business versus personal use, and, the percent of the original cost of the equipment that is business versus personal.

- **Other Expenses**

Virtually any expense you incur in the pursuit of your business is tax-deductible in some way. The key is to KEEP GOOD RECORDS! Some examples are:

- Advertising
- Bank Charges on your business bank account
- Commissions and Referral Fees paid to others
- Contract Labor
- Dues, Subscriptions, Journals, Publications
- Freight, Postage, and Delivery
- Insurance
- Interest on Credit Cards and Bank Loans related to your business.
- Legal and Accounting Fees **(including tax preparation!)**
- Meals and Entertainment
- Office Supplies
- Professional Development

**OTHER ORDINARY AND REASONABLE BUSINESS EXPENSES**

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- Rent on Equipment and Meeting Rooms
- Repairs and Maintenance
- Travel
- Wages and Salaries
- Equipment and Furniture purchased for your business

**SPECIAL NOTE:**

IRS now allows up to \$75.00 per day for deductions even if you do not have a receipt. What you must do to claim this deduction is write down in your day-timer, or similar document, the date, time, person for whom the expense was made, and why it was business related.

**BE SURE TO SUMMARIZE ALL OF YOUR INCOME AND EXPENSES RELATED TO YOUR BUSINESS INTO YEAR-TO-DATE TOTALS AT THE END OF THE YEAR USING OUR "TAX INFORMATION SUMMARIZER" LOCATED IN THE "LIBRARY" AT WWW.FIRSTAX.COM.**

## **FINAL SUMMARY**

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### **SOCIAL SECURITY TAXES**

For those who own their business, social security taxes are known as “self-employment taxes”. Self-employment taxes are only calculated and paid when there is a taxable profit from the business. Many Business Professionals who utilize the techniques found in this workbook may have a tax “loss” the first year or two that they are in business. If that is the case, then there are NO self-employment (social security) taxes due!

If a taxable profit is made for the year, then the IRS Schedule SE will have to be completed and attached to the tax return. A tax rate of approximately 15.3% is assessed on the net taxable income (after all expenses!) from your business. That tax is added to any federal taxes owned on your federal income tax return.

### **QUARTERLY ESTIMATED TAX PAYMENTS**

Quarterly estimated tax payments are usually made only when there is taxable profit from your business. Hence, much as is the case with self-employment taxes, if there is a tax loss from your business, it is most likely that you will not need to make quarterly estimated payments.

However, the determination of whether you need to make quarterly estimated tax payments is dependent on your ENTIRE tax situation. It can

be a complicated subject and is beyond the scope of this workbook.

If you have questions about your specific tax situation, please **call FirsTax at (713) 781-9999 or (800) 781-9996 for further information.**

**WHAT FIRSTAX CAN DO FOR YOU**

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**USE OUR AVAILABLE  
SUMMARIZER:**

It is designed to assist you in gathering all the information necessary to do your entire tax return. The FirsTax Summarizer is specifically designed to assist you in easily and efficiently organizing your business totals for the preparation of your tax return.

**TO ENSURE THAT YOU PAY THE LOWEST LEGAL FEDERAL AND STATE INCOME TAXES, send your completed FirsTax Summarizer and your state income tax packet to us as soon as you've finished compiling your year-to-date totals!**

**TAX RETURN PREPARATION:**

We will accurately prepare your federal and state tax returns utilizing the most sophisticated computer based processing equipment. In addition, turnaround time can be as little as overnight!

**ELECTRONIC FILING:**

We can file your tax return electronically, which allows refunds due to you to be wire-transferred directly into your bank account in 3-14 working days!

**REVIEW OF YOUR THREE (3)  
PRIOR YEARS TAX RETURNS:**

If you haven't taken advantage of all the tax savings we've discussed on your last three (3) years tax returns, please send a copy of each return

with the backup documentation to us today! We'll review those tax returns to determine if we can amend them to save you additional tax dollars. We'll do that review at NO CHARGE to you! If we find that we can save you additional taxes, and you approve, we'll amend your tax returns so that the IRS will refund you that additional money. Our fee is then only one-half (1/2) of the savings we find for you. It's a NO LOSE offer!

**TAX PLANNING:**

We work with clients year-round to ensure that their federal and state taxes remain at their lowest legal amount. Repeatedly we find that our clients who plan ahead for their tax savings, realize substantially greater reductions in their tax liabilities.

**IRS PROBLEM RESOLUTION:**

If you have a problem with the IRS that you want resolved, call us today. We specialize in representing clients in tax audits, the release of liens and levies, workout of past due taxes, and assisting clients with catching up past due tax returns.

**CONFIDENTIALTY GUARANTEED:**

All of the information used to prepare your tax return, electronic filing, tax planning, and IRS problem resolution, is STRICTLY confidential!

Please count on FirsTax to be your tax reduction service! **CALL US TODAY AT (713) 781-9999, OR (800) 781-9996.**

**Special Note:**

***If FirsTax did not prepare your last three (3) years tax returns, we will review them at no charge to determine if we can amend them to save you additional tax dollars. If we can find that we can save you additional taxes, and you approve, we'll amend your tax returns so that IRS will refund those additional taxes to you! Our fee will then be ½ of the savings realized! It's a no lose offer!***

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