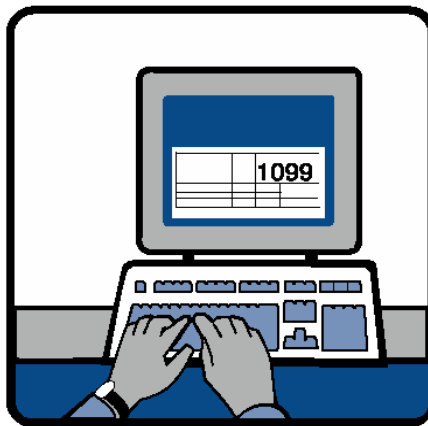


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Small Business Tax Workshop Workbook

Instructor Guide



Department of the Treasury
Internal Revenue Service

Publication 1066A (Rev.12-02)
Catalog Number 35413T

www.irs.gov

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

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Instructor's Guide

Course Design

This comprehensive small business tax workshop is designed for the small business owner and the self-employed. The targeted audience includes a wide variety of business types, educational levels and experiences. This material is comprised of five lessons. They are organized for maximum flexibility and use in a variety of settings and instructional situations. The material is arranged by subject, for ease in locating a particular lesson, but they can be taught in any order the instructor chooses: individually, in pairs, even groups, depending on the total time allotted for the program. The length of each lesson can vary, depending on the instructor's presentation. Each lesson has an instructor's guide.

Contents

The **introductory lesson** provides the various IRS services and activities- Taxpayer Rights, Customer Account Services, Campuses, Examination and Appeals, Collection, Taxpayer Advocate Service- as well as other services and sources of information.

Lesson 1 (Business Tax Requirements) explains the basic types of business organizations (sole proprietorship, partnership, S Corporation and corporation), business tax returns, recordkeeping requirements, basic financial statements and accounting methods. It focuses on the sole proprietor and the figuring of profit (or loss) on Schedule C-EZ and C, self-employment tax on Schedule SE, and the payment of personal income and social security taxes via estimated tax payments (1040 ES).

Lesson 2 (Employment Taxes) deals with the basics of handling the withholding of employment taxes such as federal income tax, social security and Medicare tax. It discusses the employer identification, the relationship between employer/employee and information returns.

Lesson 3 (Form 941, Employer's Quarterly Federal Tax Return/Form 940 Employer's Annual Federal Unemployment (FUTA) Tax Return) is divided into two parts. The first part covers the deposit requirements for the Form 941 and completion of the form. The second part of

Lesson 3 defines the requirements for FUTA. It discusses the deposit requirements and the completion and due date of the Form 940.

Lesson 4 (Business Use of Your Home) covers deducting the expenses of using the home for business, the eligibility test for taking an office-in-the-home deduction, and where to claim it on an income tax return.

Lesson 5 (IRS e-file for Business) is designed to provide businesses with information on how to electronically file business tax returns and payments. The lesson covers the different methods of electronically filing available to businesses.

Teaching Suggestions

An administrative checklist with reminders for planning and wrapping up a class is included at the end of this guide.

Each lesson contains an instructor guide for your use. It is very important that the instructor correlate the instructor guide to the study guide materials the participants will be following in class to avoid problems in following the lesson. The instructor should have ample preparation time to become familiar with all of the available material.

The format of the lesson lends itself to a variety of interactive training methods such as group discussion, question and answer and hands-on application of knowledge via study guide and workbook exercises.

Training Aids

If an overhead projector and screen are available, a transparency of a blank form for an answer to an exercise or workbook question may be helpful in emphasizing a point. A PowerPoint presentation is very effective in providing specific points of the lesson.

A chalkboard is useful for writing examples and emphasizing certain points.

The facility that is available, the number of participants, and the allotted time frame will dictate which training aids to use.

Course Materials

The Publication 1066, Small Business Tax Workshop Workbook, should be given to each participant. Each lesson contains the forms needed for the exercises in the workbook. The Instructor Guide for each lesson contains the publications and forms that are needed for the lesson. Some of the lessons will require the use of calculators.

Although there are numerous references in the course material to other publications, the instructor should not attempt to place bulk orders. If the participants are interested in obtaining certain forms and publications after the training is completed, they can order them by computer using our web address www.irs.gov or calling 1-800-829-3676 or fax from their fax machine 703-368-9694.

Administrative Checklist

Before Class

1. Arrange for copies of the workbooks.
2. Decide on the classroom seating arrangements that will be most appropriate for the class size.
3. Determine what training aids will be used and arrange for the facility where the program will be presented to provide the necessary equipment. Some training aids or equipment that may be needed are: Overhead projector, computer, PowerPoint presentation, chalkboard, chalk, eraser, and felt-tip pen.
4. Ensure that the training aids are displayed in such a way that all participants can see them.

After class

1. Forward any comments and suggestions that you have as an instructor to the course administrator (or sponsor).
2. Submit enrollment data and evaluations to the course administrator (or sponsor) at your organization.

Lesson 1

Business Tax Requirements

Instructor Guide

Overview

When deciding to operate a business, consideration is given to retaining documentation to reflect income and records retention requirements. An important initial decision is the business organizational structure and the tax reporting requirements of federal and state. This lesson briefly discusses these area as well as deductions for common business expenses.

Material Needed

Instructor's Reference:

Form SS-4 APPLICATION FOR FEDERAL TAX IDENTIFICATION NUMBER
 Form 1040ES, ESTIMATED TAXES FOR INDIVIDUALS
 Publication 334, TAX GUIDE FOR SMALL BUSINESS
 Publication 463, TRAVEL, ENTERTAINMENT, GIFT AND CAR EXPENSES
 Publication 535, BUSINESS EXPENSES
 Publication 560, RETIREMENT PLANS FOR SMALL BUSINESS
 Publication 583, STARTING A BUSINESS AND KEEPING RECORDS
 Publication 587, BUSINESS USE OF YOUR HOME (INCLUDING USE BY DAY-CARE PROVIDERS)
 Publication 590, INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs) (INCLUDING ROTH IRAs AND EDUCATION IRAs)
 Publication 910, IRS GUIDE TO FREE TAX SERVICES
 Publication 954, Tax Incentives For Empowerment Zones
 Publication 946 HOW TO DEPRECIATE PROPERTY (Section 179, MACRS, Listed Property)

Teaching Tips

The text below has some points to cover in this lesson.

Employer Identification Number

- Form SS-4 and Instruction, APPLICATION FOR FEDERAL EMPLOYER IDENTIFICATION NUMBER (EIN) will be discussed in detail in Lesson 2.
- Explain purpose of acquiring EIN: identifies tax forms sent to the IRS by a specific business.
- Addresses and fax numbers are in SS-4 Instructions.
- Publication 583, which illustrates many of the forms.
- Stress the importance of keeping separate business records to:

Adequate Records Bookkeeping Systems and How Long to Keep

1. Identify sources of income and nature of expenses shown on receipt and invoices.
2. Prevent omission of income and deductible expenses on tax forms.
3. Establish earnings for self-employment taxes
4. Explain items on tax forms.

- Ask what other benefit results from keeping accurate records?
- Refer audience to Recording Business Transactions in Publication 583 for illustration of adequate records pages 18-23.
- Businesses can use any reasonable method to store business records manually, either on computer disks or CD-ROM. If stored on computer files, they should print a hard copy and retain. For length of time to keep records, refer to Table 3, Period of Limitations, in Pub. 583.
- Briefly explain the difference between cash and accrual bookkeeping systems.
- Briefly explain the difference between single and double entry accounting systems.
- Refer to Exhibits 1.1 Balance Sheet and 1.2 Cash Flow Analysis (Income Statement) on pages 1-5 and 1-6, explain their purpose.

Income Statement and Balance Sheet

Types of Business Organizations Advantages and Disadvantages

- Transition to business entities: Review the advantages and disadvantages of the five types.
- Define each business organization type.
- Define sole proprietor its key advantage and disadvantage
- Explain: If both husband and wife jointly own and operate the business, a partnership exists.

Sole Proprietors and Single Member LLCs File Schedule C (Form 1040)

- Review Illustrations 1.10 through 1.13 in Pub 1066 for Schedule C (1040) and C-EZ (Form 1040); and Schedule SE (1040).
- Reference Publication 334; Form 1040 with Instructions to Schedule C (1040), Schedule SE (1040) and Form 1040ES.

Partnerships and LLCs Taxed as Partnerships

- Define partnership and discuss the key advantage and disadvantage.
- Stress the importance of keeping records.
- Review illustrations in Pub 1066 for: Form 1065, Schedule K-1 (Form 1065); Schedule E (1040); Schedule SE (1040); Form 1040 with Instructions; Form 1040ES.
- Reference Pub 541, Partnerships and Form 1065 Tax Package.

Limited Liability Company

- A limited liability company (LLC) combines features of a corporation with those of a partnership.
- Contact the Office of the Secretary for your state concerning legal status.
- A single-owner LLC is still liable for federal taxes the same as a sole proprietor unless a Form 1120 is filed as a corporation, a separate legal entity.
- Generally a LLC is treated as a partnership.
- Form 8832, Entity Classification Election, must be filed with the initial income tax return to notify IRS of selected income tax status.
- Reference Publication 541, Partnerships, order Form 1065 Tax Package.
- If elects to be treated as a corporation, order Form 1120 Tax Package and Form 1120W, Estimated Tax for Corporations.

S Corporation

- Shareholders must file Form 2553, Election by a Small Business Corporation, within the first 75 days of the tax year to be permitted for the current tax year.
- Generally, an S corporation does not pay tax income resulting from daily operation. Instead, the net income, charitable contribution, and section 179 deduction of the S corporation are divided among its shareholders on Schedule K-1.
- Shareholders report the information from Schedule K-1 onto other schedules and forms attached to their own income tax return, Form 1040.
- Reference Form 1120S Tax Package.

Corporation

- In order to form a corporation, you must apply for a charter through the Secretary of State's office where the principal business activity will occur.
- To increase its financial ability, the charter permits corporations to sell stock in it to numerous shareholders/owners.
- The corporation is empowered to create debts separate from the shareholders.
- Review illustration in Publication 1066. See Exhibit 1.9 for Form 1120-A.
- Dividends paid to shareholders during the year, send each shareholder a Form 1099-DIV, STATEMENT FOR RECIPIENTS OF DIVIDENDS AND DISTRIBUTIONS.
- Each employee-shareholder and corporate officer is given a Form W-2, WAGE AND TAX STATEMENT to show compensation for services.

Net Profit or Loss

- The *Net Loss* of a business identifies the amount that can reduce the other income reported on the return. This lesson shows the basic way to arrive at the *Net Profit or Loss*, looking at *Gross Receipts or Sales, Cost*

of Goods Sold, Gross Income, Business Expenses for illustration purposes.

- Explain that the Schedule C will be used in the example, however the basic formula is utilized on the partnership and corporation return in a slightly different manner.
- Utilize Illustration 1.10 and 1.11 in text for placement of each entry on the return.
- Advise the participants that basic formula for net profit or loss is:
 - $\text{Gross Income} - \text{Expenses} = \text{Net Profit or Loss}$
- Explain how to arrive at ***Gross Receipts or Sales***. Give examples income from sales and services (from a Car Mechanic, Hair Stylist, Restaurant Owner, Independent Insurance Agent, or Boutique Owner.)
- Also, explain returns and allowance (refunds and credits given to customers) are subtracted from the ***Gross Receipt*** to arrive at ***Net sales***

Cost of Goods Sold

- Explain how to arrive at ***Cost of Goods Sold*** utilizing the basic formula:
 - ***Beginning inventory*** (products on hand from the previous tax year/prior year ending inventory balance. (plus)
 - ***Purchases*** (products purchased during the year less products used for personal use). (equals)
 - ***Cost of items available to sale*** (minus)
 - ***Ending inventory*** (products on hand at the end of the year) (equals) ***Cost of Goods Sold***.
- Emphasize this section is completed by businesses that buy or make products to be sold to customers.
- Show how the amount that reflects ***Cost of Goods Sold*** is then entered on the front of the schedule and is subtracted from ***Net Receipts or Sales*** to arrive at ***Gross Income***.

- Explain that the *business section* has standard expenses shown for typical businesses, however the entry should be placed in the applicable categories for the participant’s trade or business.
- Emphasize the *business expenses* should be ordinary and necessary for their trade or business.
- Give examples of the various expenses (expenses with a life of 1 year or less and expenses that are depreciable that have a life of more than one year).
- Show the participants, using the example, that the total business expenses are subtracted from the *Gross Income* to determine the *Business Net Profit or Loss*.
- Stress the importance of keeping records.
- Review the text exhibit 1.11 through 1.12 for the completed Schedule C.
- Ask the participants for questions.

Self- Employment Tax

- In 2002, the tax rate for self-employment tax is 15.3% - 12.4% social security (old age, survivors and disability insurance) plus 2.9% for Medicare (hospital insurance).
- Review Illustration 1.12 of Schedule SE –Flow chart aids with decision to prepare Short (front) or Long (back) Schedule SE.

Estimated Tax

- Estimated Tax payments are required if an individual expects unpaid income taxes to be \$1,000 or more after considering income tax withheld and tax credits.
- Form 1040-ES, ESTIMATED TAXES FOR INDIVIDUALS, includes a worksheet, the current year tax rates, and payment vouchers for four installments.
- Installment payments are due by April 15, June 15, September 15, with the final payment by January 15 of the following year.

Business Expenses

- Corporations compute their estimated tax liability on Form 1120-W.
- This section discusses specific *Business Expenses and Business Credits* that are available for qualified businesses. Business expenses reduce income subject to income tax; Business Credits reduce taxes. If business credits are used, the specific expense deduction must be reduced by the applicable credit.
- This lesson discusses: Work Opportunity Credit; Welfare-to-Work Credit; Travel, Transportation and Entertainment Expenses; Car Expenses; Business Use of Your Home; Retirement Plans; Health Insurance Deduction for the Self-Employed; Business Start-Up Costs; Depreciation and Section 179
- Emphasize that this lesson gives a brief overview, however the applicable publications provide a more detailed discussion on the specific topics.

Credits and Tax Incentives

- Advise the participants that the *Work Opportunity Credit* and the *Welfare-to-Work Credit* can be taken if specific criteria are met and they receive certification from their state employment security agency. The employer must submit Form 8850, Pre-Screening Notice and Certification Request, to their state agency prior to hiring the eligible prospective employee.
- Explain that Publication 954, TAX INCENTIVES FOR EMPOWERMENT ZONES AND OTHER DISTRESSED COMMUNITIES, provided more information about these and other credits.

Travel, Transportation and Entertainment Expenses

- *Travel, Transportation and Entertainment Expenses* are deductible with certain limits for business related expenses that are ordinary and necessary in the conduct of your trade or business.
- Explain that documentation of each travel event is important using daily logs, planner and /or calendars along with receipts.
- Using Schedule C, Part IV and Form 4562, Part V (Sections A-C), explain where to place the totals on each form.

Business Use Of Your Home

- Emphasize that only the business percentage of the cost of the vehicle is deductible.
- Advise participants that ***Business Use of Your Home*** is deductible only when use is exclusively and regularly for business. Deduct on Schedule C if the business has a tentative profit. More detailed discussion is provided in Lesson 4.
- Advise that calculation of deductible amount is completed on Form 8829, *Expenses for Business Use of your Home*, and the allowable deduction is shown on Schedule C, line 30.

Retirement plan

- Advise the participants that a deduction as an adjustment to gross income on the tax return may be claimed for contributions to a ***Retirement plan*** on behalf of themselves and/or employees.
- Show them where contributions to a ***Retirement plan*** are deducted on the return.
- Advise them of the qualified plans (***IRA, Individual Retirement Arrangement; SEP, Simplified Employee Pension***).
- Inform the participants of the publications that discuss the deduction criteria in detail for each plan. (Publication 590, Individual Retirement Arrangements, and Publication 560, Retirement Plans for Small Businesses).

Health Insurance Deduction for Self-Employed

- Advise the participants that ***Health Insurance Deduction for Self Employed*** can be shown as an adjustment to income on Form 1040. Also, note that the deduction will increase from 70% of the cost to 100% of the cost for tax year 2003 and later for eligible employers.
- Give examples of ***Business Start-Up Costs*** (business plan costs, research costs, etc.)

Business Start-Up Costs

- Emphasize start-up cost cannot be deducted prior to starting the actual business. The costs are spread out over 60 months after the business starts.

Depreciation and Section 179

- Advise participants that the amortized cost is calculated on Form 4562, Depreciation and Amortization, in Part VI.
- Explain to them that certain business property costs are *depreciated* over the life of the property.
- Advise them of the types of property that are never depreciated: Land, inventory and property placed in service and disposed of in the same year.
- Advise the participants of the criteria for depreciation.
- Explain the most used methods of depreciation: Modified Accelerated Cost (MACRS) and Section 179 Deduction.
- Advise how the cost of property is calculated and reported on Form 4562, Depreciation and Amortization.
- Advise the participants that only the business use percentage can be deducted.
- Explain that the depreciation deduction has to be recaptured if the property is sold or disposed of prior to the end of the useful life of the property.

Summary

- Remember to ask the participants for questions.
- Summarize the lesson.

Lesson 2

Employment Taxes

Instructor Guide

Overview

An employer may be responsible for withholding and paying taxes on people who are employed by them. This lesson will give an overview of the employer's responsibility for determining Income tax withholding, social security and Medicare taxes. This lesson will also discuss the types of forms related to employment taxes and forms for non-employees.

Material Needed

Each Participant Will Need:

Publication 15, CIRCULAR E - EMPLOYER'S TAX GUIDE

Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE

Publication 1635, UNDERSTANDING YOUR EIN

Publication 1779, INDEPENDENT CONTRACTOR OR EMPLOYEE...

Form SS-8, DETERMINATION OF EMPLOYEE WORK STATUS FOR PURPOSES OF FEDERAL EMPLOYMENT TAXES AND INCOME TAX WITHHOLDING

Teaching Tips

The text below contains some points you may want to cover in this lesson.

Additional information on all subjects can be found at the Small Bus/Self-Employed page of the IRS website, www.irs.gov. Publications 15 and 15-A are the primary publications that cover this topic.

Employer Identification Number (EIN)

Publication 1635 is a great aid to this process. Anyone completing the Form SS-4 or needing to know when you need to apply for an EIN can easily follow this document. It also defines an EIN, provides information by type of business entity, and explains how and where to apply for an EIN and how to avoid common problems.

EIN processing is being centralized in 3 sites – Cincinnati, Philadelphia and Brookhaven. Our toll-free assistants can access customer accounts using the EIN 12 hours a day across the country. The toll-free line, 1-866-816-2065, is available Monday through Friday, from 7:30am to 5:30pm customer's local time. Alaska and Hawaii will need to use Pacific Time zone for their calls.

Faxed EIN requests can be done 7 days a week/24 hours a day using the numbers provided for each location on Form SS-4 or in Pub. 1635. Faxed applications will be processed in four days.

Form SS-4, Application for Employer Identification Number, was revised 12-2001. Some of the significant changes were:

- You no longer are required to have a completed Form SS-4 when calling to apply for a number.
- One new toll-free number, 1-866-816-2065.
- An embedded disclosure authorization is included that will eliminate the need for a separate Form 2848, Power of Attorney

Employer/Employees

Publication 1779 breaks down the 20 common law indicators into 3 categories: Behavioral Control, Financial Control and Relationship of the Parties. This publication offers a general overview.

Form SS-8 should be made available for viewing as it gives additional guidance concerning the aspects considered by the courts in each of the above categories. The determination process takes about 120 days.

The different types of workers (common-law and statutory employees and independent contractors) are explained in Publication 15 and 15-A.

Misclassification of workers and unpaid employment taxes are high priorities within the Internal Revenue Service. Corporate liabilities can be assessed personally against officers and employees found to be responsible for withholding and payment of these taxes if they cannot be collected from the corporation.

Form W-4

There are special rules for fringe benefits, sick pay, family employees and religious and exempt organization employees, which are explained in Publications 15 & 15-A. There is also a Publication 15-B, Employer's Tax Guide to Fringe Benefits.

Information Returns

The instructions for Forms 1099 referred to in the "Note" on page 2-13 are very helpful and outline additional circumstances where Form 1099-MISC is required.

Lesson 3

Part I: Form 941, Employer's Quarterly Federal Tax Return

Instructor Guide

Overview

This lesson is designed to provide students with an understanding of Form 941 deposit requirements and to familiarize students with the preparation of the Form 941. Students will learn about the due dates of the Form 941, tax deposit requirements, methods of depositing taxes due, and the sections and lines of the Form 941.

Material Needed

Instructor's Reference

Publication 15, EMPLOYER'S TAX GUIDE (CIRCULAR E)
Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE
Publication 15-B, EMPLOYER'S TAX GUIDE TO FRINGE BENEFITS
Instructions for Form 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN

Teaching Tips

The text below contains suggestions that you may want to cover in this lesson.

Form 941

Reference pages 3-5 and 3-6, Form 941 line instruction—Refer to Instructions for Form 941 for more detailed line information.

Filing by Other Methods

Reference page 3-8, Filing by Other Methods—Refer to Form 941 *e-file* section in Lesson 5.

\$100,000 Next-Day Deposit Rule

Reference page 3-11, How to Deposit—Refer to EFTPS section in Lesson 5.

Lesson 3

Part II: Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return

Instructor Guide

Overview

This lesson is designed to cover the rules and requirements for the employer. This tax is paid by the employer and not the employee. Students will learn about the preparation of the Form 940 and the tax deposit requirements.

Material Needed

Instructor's Reference:

Publication 15, EMPLOYER'S TAX GUIDE (CIRCULAR E)
Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE
Form 940/940 EZ, EMPLOYER'S ANNUAL FEDERAL
UNEMPLOYMENT (FUTA) TAX RETURN

Teaching Tips

The text below contains some points that you may want to cover in this lesson.

What Are FUTA Wages

Refer to Publication 15 for more detailed information.

Figuring FUTA Tax

Advise the participants on the wage amount and the rate for the Federal Unemployment Tax Return (FUTA).

States Experience Rate

Advise the participants to contact their state for the experience rate.

Forms 940 and 940-EZ Filing

Reference pages 3-29 and 3-30, Form 940 for line instruction—Refer to Instructions for Form 941 for more detailed line information.

Lesson 4

Business Use of Your Home

Instructor Guide

Overview

A person who uses a portion of his or her home for business may be entitled to deduct expenses attributable to such use. This lesson discusses the criteria for using one's personal residence for business. This lesson will also cover the expenses and the limits of those expenses.

Material Needed

Each Participant Will Need:

Publication 587, BUSINESS USE OF HOME

Publication 8829, INSTRUCTIONS, EXPENSES FOR BUSINESS USE OF YOUR HOME

Teaching Tips

The text below has points to cover in this lesson.

Qualifying for a Deduction

- Give examples when Exclusive or Regular Use are not being met such as:
 - Dining room would not meet the exclusive use rule if you have dinner in the dining room.
 - If you have a room that is used by you for business and your children also play computer games, the exclusive use rule has not been met

Business Percentage

- Advise the participants they can use any reasonable method to determine the business percentage of the home. Be sure to discuss the two common methods.
- Show them where on the Form 8829 how to calculate the business percentage.

Types of Expenses

- Explain the difference between regular business expenses, and business use of the home expenses. Give examples of direct, indirect, and unrelated expenses.
- Give examples of expenses, such as real estate taxes, deductible mortgage interest, casualty losses, insurance, rent, repairs, utilities, depreciation
- Review to the example on page 4-10.

Deduction Limit

- Advise the participants of the deduction limit and carry forward.
- Review the Example under “Carry forward”.

Where to Deduct Expenses Related to the Business Use of the Home

- Advise participants of where to report expenses that are related to Business Use of the Home.
- Explain that depreciation has to be recaptured if they sell or exchange their home.

Record keeping

- Stress the importance of keeping records.

Exercise

- Have participants complete the exercise on page 4- 15. If time does not permit, you may want to complete the exercise with them.
- Remember to ask the participants for questions. This will help you to see if they are understanding the lesson.
- Summarize the lesson.

Lesson 5
IRS *E-file* for Business
&
Electronic Payment Options
Instructor Guide

Overview

This lesson is designed to raise the student’s awareness of the Internal Revenue Service’s electronic filing processes and electronic payment options which are currently available. Students will be provided with the many advantages of using these electronic services. The benefits include: economy, convenience, efficiency, accuracy and security. Students will learn the process of filing their return electronically and how to make payments using the Electronic Federal Tax Payment System (EFTPS).

Reference Materials

Instructor’s Reference:

Publication 15, CIRCULAR E - EMPLOYER’S TAX GUIDE

Publication 1855, TECHNICAL SPECIFICATIONS GUIDE FOR THE ELECTRONIC FILING OF FORM 941

Publication 3603, E-FILE FOR BUSINESS BROCHURE

Publication 966, ELECTRONIC FEDERAL TAX PAYMENT SYSTEM BROCHURE

Publication 3425, 5 EASY WAYS TO USE EFTPS

Publication 3959, EFTPS CD-ROMDDD

Publication 3806, THE EASIEST WAY TO PAY YOUR TAXES FOR INDIVIDUALS

Teaching Tips

Below, you will find some helpful hints and suggestions to use when preparing to present this material. Please encourage students to use IRS electronic services for all of their filing and paying requirements.

940 and 941 E-file

Visit www.irs.gov to become familiar with electronic and on-line filing options and processes by clicking on the *e-file* logo.

Products in Development

Review Publication 3603 for a complete list of business taxes that can be filed electronically. Remember that beginning January 2004, corporations will be able to file Form 1120 and Form 1120S electronically.

The Electronic Federal Tax Payment System (EFTPS)

Review Publication 3959, *EFTPS CD-ROM* for Businesses and Individuals or visit www.eftps.gov to become familiar with the enrollment process and instructions for using the Electronic Federal Tax Payment System. It is important to note the ability to make 1040ES, Estimated Tax Payments, and installments payments via EFTPS.

Answers

Lesson 2

Exercise 1

1. Form SS-4, APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER.
2. Form W-4.
3. (A1) 6.2% social security tax rate and
(A2) 1.45% Medicare tax rate
(B) Same as above
(C) \$84,900 wage base limit in 2002 for social security tax
(D) No wage base limit for Medicare tax
4. (A) Form W-2
(B) By January 31 of the following year
5. Form 1099-MISC
6. 30%
7. Form W-5
8. Forms W-2c and W-3c

Lesson 3, Part 1

Exercise 1

Deposit Date	Amount
5/15/02	\$1,343.82
6/17/02	2,491.56
7/16/02	2,241.62
Total	<u>\$ 6,077.00</u>

See filled-in Exhibit 3.8 page A-3.

Exercise 2

Social Security Tax	\$ <u>0</u>
Medicare Tax	<u>0</u>
Federal Income Tax	\$ <u>8</u>

Exercise 3

Deposit Date by	Amount	Monthly Amount
Wednesday 10/9/02	\$10,528.82	
Wednesday 10/23/02	10,253.20	\$20,782.02
Wednesday 11/6/02	9,514.50	
Wednesday 11/20/02	9,975.28	\$28,913.52
Wednesday 12/4/02	9,423.74	
Wednesday 12/18/02	10,528.82	
Thursday 1/2/03	10,528.82	
Thursday 1/2/03	764.00	\$21,821.64
Total	\$71,517.18	\$71,517.18

See filled-in Exhibit 3.9 pages A-4 and A-5.

ANSWER TO EXERCISE 1 – EXHIBIT 3.8

Form 941
(Rev. January 2002)
Department of the Treasury
Internal Revenue Service (99)

Employer's Quarterly Federal Tax Return

▶ See separate instructions revised January 2002 for information on completing this return.

Please type or print.

OMB No. 1545-0029

T
FF
FD
FP
I
T

Enter state code for state in which deposits were made **only** if different from state in address to the right ▶

Name (as distinguished from trade name) **Green For Ever, Inc.**

Trade name, if any

Address (number and street) **925 Fern Ave.**

Date quarter ended **6/30/2002**

Employer identification number **10-1234567**

City, state, and ZIP code **Augusta, GA 32599**

If address is different from prior return, check here ▶

1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	4	4	4	5	5	5	
6	7	8	8	8	8	8	8	8	9	9	9	9	9	9	10	10	10	10	10	10	10

If you do not have to file returns in the future, check here ▶ and enter date final wages paid ▶

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶

1 Number of employees in the pay period that includes March 12th . . . ▶	1		
2 Total wages and tips, plus other compensation	2	26830	00
3 Total income tax withheld from wages, tips, and sick pay	3	1972	00
4 Adjustment of withheld income tax for preceding quarters of calendar year	4		
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	5	1972	00
6 Taxable social security wages	6a	26830	00
	6b	$\times 12.4\% (.124) =$	
6 Taxable social security tips	6c		
	6d	$\times 12.4\% (.124) =$	
7 Taxable Medicare wages and tips	7a	26830	00
	7b	$\times 2.9\% (.029) =$	
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax	8	4104	99
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ ± Fractions of Cents \$ +01 ± Other \$ =	9		01
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	10	4105	00
11 Total taxes (add lines 5 and 10)	11	6077	00
12 Advance earned income credit (EIC) payments made to employees	12		
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	13	6077	00
14 Total deposits for quarter, including overpayment applied from a prior quarter	14	6077	00
15 Balance due (subtract line 14 from line 13). See instructions	15		

16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$

and check if to be: Applied to next return or Refunded.

- All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941).
- Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶
- Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. ▶

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
1343.82	2491.56	2241.62	6077.00

Third Party Designee: Do you want to allow another person to discuss this return with the IRS (see separate instructions)? Yes. Complete the following. No

Designee's name ▶ Phone no. ▶ () Personal identification number (PIN) ▶

Sign Here: Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. **R.M. Green, Jr. Treas.**

Signature = *R. M. Green Jr.* Print Your Name and Title = Date =

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2002)

ANSWER TO EXERCISE 3 – EXHIBIT 3.9

Form 941
(Rev. January 2002)
Department of the Treasury
Internal Revenue Service (99)

Employer's Quarterly Federal Tax Return

▶ See separate instructions revised January 2002 for information on completing this return.
Please type or print.

OMB No. 1545-0029

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Enter state code for state in which deposits were made **only** if different from state in address to right (see page 2 of instructions).

Name (as distinguished from trade name) **Paul's Auto Shop, Inc.**
Trade name, if any

Address (number and street) **425 Auto Strip Drive**

Date quarter ended **12/31/2002**
Employer identification number **10-9876543**
City, state, and ZIP code **Cando, LA 88877**

If address is different from prior return, check here

IRS Use

1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	4	4	4	5	5	5	
6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	9	10	10	10	10	10	10

If you do not have to file returns in the future, check here and enter date final wages paid ▶

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶

1 Number of employees in the pay period that includes March 12th . . . ▶	1	
--	---	--

2 Total wages and tips, plus other compensation	2	206460 00
3 Total income tax withheld from wages, tips, and sick pay	3	40165 00
4 Adjustment of withheld income tax for preceding quarters of calendar year	4	
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	5	40165 00
6 Taxable social security wages	6a	206460 00 × 12.4% (.124) =
Taxable social security tips	6c	× 12.4% (.124) =
7 Taxable Medicare wages and tips	7a	206460 00 × 2.9% (.029) =
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax	8	31588 38
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ -20 ± Other \$ _____ =	9	(20)
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	10	31588 18
11 Total taxes (add lines 5 and 10)	11	71753 18
12 Advance earned income credit (EIC) payments made to employees	12	236 00
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	13	71517 18
14 Total deposits for quarter, including overpayment applied from a prior quarter	14	71517 18
15 Balance due (subtract line 14 from line 13). See instructions	15	

16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ _____ and check if to be: Applied to next return or Refunded.

- All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941).
- Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here
- Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here.

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter

Third Party Designee: Do you want to allow another person to discuss this return with the IRS (see separate instructions)? Yes. Complete the following. No

Designee's name ▶ _____ Phone no. ▶ () _____ Personal identification number (PIN) ▶ _____

Signature Here: Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. **Paul Potter, Pres.**

Signature = *Paul Potter* Print Your Name and Title = _____ Date = _____

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2002)

ANSWER TO EXERCISE 3 – EXHIBIT 3.9

<p>SCHEDULE B (FORM 941) (Rev. January 2002) Department of the Treasury Internal Revenue Service</p>	<p>Employer's Record of Federal Tax Liability ▶ See Circular E for more information about employment tax returns. 5151 ▶ Attach to Form 941 or 941-SS.</p>	<p>OMB No. 1545-0029</p>			
<p>Name as shown on Form 941 (or Form 941-SS) Paul's Auto Shop, Inc.</p>		<p>Employer identification number 10 : 9876543</p>			
		<p>Date quarter ended 12/31/2002</p>			
<p>You must complete this schedule if you are required to deposit on a semiweekly schedule, or if your tax liability on any day is \$100,000 or more. Show tax liability here, not deposits. (The IRS gets deposit data from FTD coupons or EFTPS.)</p>					
A. Daily Tax Liability—First Month of Quarter					
1	8	15	22	29	
2	9	16	23	30	
3	10	17	24	31	
4	11	18	25	26	
5	12	19	20	27	
6	13	21	28	29	
7	14	15	16	17	
<p>A Total tax liability for first month of quarter ▶ A 20782 : 02</p>					
B. Daily Tax Liability—Second Month of Quarter					
1	8	15	22	29	
2	9	16	23	30	
3	10	17	24	31	
4	11	18	25	26	
5	12	19	20	27	
6	13	21	28	29	
7	14	15	16	17	
<p>B Total tax liability for second month of quarter ▶ B 9423 : 74</p>					
C. Daily Tax Liability—Third Month of Quarter					
1	8	15	22	29	
2	9	16	23	30	
3	10	17	24	31	
4	11	18	25	26	
5	12	19	20	27	
6	13	21	28	29	
7	14	15	16	17	
<p>C Total tax liability for third month of quarter ▶ C 11292 : 82</p>					
<p>D Total for quarter (add lines A, B, and C). This should equal line 13 of Form 941 (or line 10 of Form 941-SS) ▶ D 71517 : 18</p>					
<p>For Paperwork Reduction Act Notice, see page 2.</p>			<p>Cat. No. 11967Q</p>	<p>Schedule B (Form 941) (Rev. 1-2002)</p>	

Answers

Lesson 3, Part 2

Exercise 1

- (A) \$30,600
- (B) \$244.80
- (C) 5/1/02
- (D) \$11,200
- (E) \$89.60

Mr. Wilson's Business		
Employee	Wages subject to FUTA tax	
	1st qtr.	2nd qtr.
R. Riding	\$4,500	\$2,500
M. Lamb	7,000	—
J. Nimble	3,400	3,400
C. Moon	5,600	1,400
C. Fiddle	4,900	2,100
P. Son	5,200	1,800
Total Wages	\$30,600	\$11,200 (x.008)

- (F) No deposit required for under \$100.
- (G) 90%

Exercise 2

- (A) 7/31/02
- (B) \$101.60
- (C) \$44.00

See filled-in Exhibit 3.14 page A-7.

ANSWER TO EXERCISE 2 – EXHIBIT 3.14

Form **940-EZ** | **Employer's Annual Federal Unemployment (FUTA) Tax Return** | OMB No. 1545-1110

Department of the Treasury Internal Revenue Service (99) | **2002**

▶ See separate Instructions for Form 940-EZ for information on completing this form.

You must complete this section.

Name (as distinguished from trade name) **ACME, INC.** | Calendar year **2002**
 Trade name, if any

Address and ZIP code **123 FIRST ST., CEDAR, MI 49621** | Employer identification number **10:7654321**

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Answer the questions under **Who May Use Form 940-EZ** on page 2. If you cannot use Form 940-EZ, you must use Form 940.

A Enter the amount of contributions paid to your state unemployment fund. (see separate instructions) . . . ▶ \$ **401 | 40**

B (1) Enter the name of the state where you have to pay contributions . . . ▶ **MICHIGAN**
 (2) Enter your state reporting number as shown on your state unemployment tax return ▶ **12345**

If you will not have to file returns in the future, check here (see **Who Must File** in separate instructions) and complete and sign the return. ▶

If this is an Amended Return, check here (see **Amended Returns** on page 2 of the separate instructions) . . . ▶

Part I Taxable Wages and FUTA Tax

1	Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees	1	26000	00
2	Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶	2		
3	Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. (see separate instructions)	3	7800	00
4	Add lines 2 and 3	4	7800	00
5	Total taxable wages (subtract line 4 from line 1)	5	19200	00
6	FUTA tax. Multiply the wages on line 5 by .008 and enter here. (If the result is over \$100, also complete Part II.)	6	145	60
7	Total FUTA tax deposited for the year, including any overpayment applied from a prior year	7	101	60
8	Balance due (subtract line 7 from line 6). Pay to the "United States Treasury."	8	44	00
9	Overpayment (subtract line 6 from line 7). Check if it is to be: <input type="checkbox"/> Applied to next return or <input type="checkbox"/> Refunded ▶	9		

Part II Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 6 is over \$100.

Quarter	First (Jan. 1 – Mar. 31)	Second (Apr. 1 – June 30)	Third (July 1 – Sept. 30)	Fourth (Oct. 1 – Dec. 31)	Total for year
Liability for quarter	52.00	49.60	27.60	16.40	145.60

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions page 5)? Yes. Complete the following. No

Designee's name ▶ Phone no. ▶ () Personal identification number (PIN) ▶

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.

Signature ▶ Title (Owner, etc.) ▶ Date ▶

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. ▼ **DETACH HERE** ▼ Cat. No. 10983G Form **940-EZ** (2002)

Form **940-EZ(V)** | **Form 940-EZ Payment Voucher** | OMB No. 1545-1110

Department of the Treasury Internal Revenue Service | **2002**

Use this voucher only when making a payment with your return.

Complete boxes 1, 2, and 3. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury." Be sure to enter your employer identification number, "Form 940-EZ," and "2002" on your payment.

1	Enter your employer identification number. 10:7654321	2	Enter the amount of your payment. ▶ 44 Dollars 00 Cents
		3	Enter your business name (individual name for sole proprietors). ACME, INC. Enter your address. 123 FIRST ST. Enter your city, state, and ZIP code. CEDAR, MI 49621

Answers

Lesson 4

ANSWER TO EXERCISE – EXHIBIT 4.4

Form 8829	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1266 <div style="text-align: center; font-size: 24pt; font-weight: bold;">2002</div> Attachment Sequence No. 66
Department of the Treasury Internal Revenue Service (99)	Name(s) of proprietor(s) FRANK	Your social security number 131 00 0001
Part I Part of Your Home Used for Business		
1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples (see instructions)	1	280
2 Total area of home	2	2800
3 Divide line 1 by line 2. Enter the result as a percentage	3	10 %
• For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7.		
4 Multiply days used for day care during year by hours used per day	4	hr.
5 Total hours available for use during the year (365 days × 24 hours) (see instructions)	5	8,760 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount	6	.
7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3	7	10 %
Part II Figure Your Allowable Deduction		
8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9-20.	8	30,000 00
9 Casualty losses (see instructions)	9	
10 Deductible mortgage interest (see instructions)	10	10,000 00
11 Real estate taxes (see instructions)	11	2,500 00
12 Add lines 9, 10, and 11.	12	12,500 00
13 Multiply line 12, column (b) by line 7	13	
14 Add line 12, column (a) and line 13.	14	1,250 00
15 Subtract line 14 from line 8. If zero or less, enter -0-	15	28,750 00
16 Excess mortgage interest (see instructions)	16	
17 Insurance	17	500 00
18 Repairs and maintenance	18	200 00
19 Utilities	19	2,200 00
20 Other expenses (see instructions)	20	
21 Add lines 16 through 20	21	200 00
22 Multiply line 21, column (b) by line 7	22	470 00
23 Carryover of operating expenses from 2001 Form 8829, line 41	23	
24 Add line 21 in column (a), line 22, and line 23	24	670 00
25 Allowable operating expenses. Enter the smaller of line 15 or line 24	25	670 00
26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15.	26	28,080 00
27 Excess casualty losses (see instructions)	27	
28 Depreciation of your home from Part III below	28	517 00
29 Carryover of excess casualty losses and depreciation from 2001 Form 8829, line 42	29	
30 Add lines 27 through 29	30	517 00
31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30	31	517 00
32 Add lines 14, 25, and 31	32	2,437 00
33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B	33	
34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶	34	2,437 00
Part III Depreciation of Your Home		
35 Enter the smaller of your home's adjusted basis or its fair market value (see instructions)	35	250,000 00
36 Value of land included on line 35	36	40,000 00
37 Basis of building. Subtract line 36 from line 35	37	210,000 00
38 Business basis of building. Multiply line 37 by line 7	38	21,000 00
39 Depreciation percentage (see instructions)	39	2.461 %
40 Depreciation allowable (see instructions). Multiply line 38 by line 39. Enter here and on line 28 above	40	517 00
Part IV Carryover of Unallowed Expenses to 2003		
41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-	41	
42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-	42	

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13232M Form **8829** (2002)

