



Internal
Revenue
Service

1111 Constitution Avenue
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Washington, D.C. 20224

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Taxcalendar

December

Ask employees whose withholding allowances will be different in 1995 to fill out a new Form W-4.

Ask each employee who can and wants to receive the advance earned income credit during 1995 to fill out Form W-5.

December 2

Deposit payroll tax for payments on November 26, 27, 28 and 29.

December 7

Deposit payroll tax for payment on November 30, December 1 and 2.

December 9

Deposit payroll tax for payments on December 3, 4, 5 and 6.

Deposit environmental, fuel, luxury, retail and manufacturers tax for the last 15 days of November.

December 14

Deposit payroll tax for payments on December 7, 8 and 9.

Deposit gas tax for the last 15 days of November if the 14-day rule applies.

December 15

Deposit payroll tax for payments in November if semi-weekly rule did not apply.

December 16

Deposit payroll tax for payments on December 10, 11, 12 and 13.

December 21

Deposit payroll tax for payments on December 14, 15 and 16.

December 23

Deposit payroll tax for payments on December 17, 18, 19 and 20.

December 27

Deposit environmental, fuel, luxury, retail and manufacturers tax for the first 15 days in December.

December 29

Deposit payroll tax for payments on December 21, 22 and 23.

Deposit gas tax for the first 15 days of December if the 14-day rule applies.

December 30

Deposit payroll tax for payments on December 24, 25, 26 and 27.



Tax Tips

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A NEWSLETTER FOR NEW BUSINESSES

courtesy of

The Internal Revenue
Service

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IRS Tax Assistance Telephone Numbers

1-800-829-1040
for general tax assistance

1-800-829-4477
tele-tax
for recorded tax information

1-800-829-3676
for FREE
tax forms and publications

IS YOUR HOME REALLY

Your Principal Place of Business?

Small business owners who get up each morning and drive or ride to the office already know that deducting office expenses can reduce taxable income. But if your commute to work consists of walking into the next room in your house, you may be unsure whether you can deduct your office expenses.

The deduction for business use of the home can be confusing. For those who qualify, a portion of rent (or depreciation), heat, electricity and other expenses can reduce taxable income, within limits and under specific circumstances.

The first step is to understand exactly what the law means by "business use" of the home. There are several use tests that must be passed in order to take this deduction.

Trade or Business Use. This may seem obvious, but in order to deduct business-related expenses for your office in the home, what you do there must be directly connected to your trade or business. This means that you cannot manage your personal investments or household budget in your office or use the office for other non-business activities.

Exclusive Use. Closely related to trade or business use, this is a very strict requirement. You must use a specific part of your home for business and for absolutely nothing else. If you use a spare room, a den or the basement for your business office, you cannot use that space for any personal purposes. "Exclusive use" means exactly that: all other uses must be excluded from the business area of your home. You may not even store personal belongings there.

Regular Use. In addition, you must use the office in your home on a continuing, regular basis. It doesn't count if you only use the space from time to time or just when you need a quiet place to work.

Principal Place of Business. There are two factors you must consider when determining if your home office is your principal place of business. You must compare the importance of the work activity you do at each place you conduct business; and, you must compare the amount of time you spend at each job location, including the time spent in your home office.

The Supreme Court has ruled that, while both time and the importance of work activity are important, "great weight" must be given to the place where you meet or deal

(continued on page 2)

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with your clients or customers or where goods or services are delivered.

So, for example, say you are a computer specialist, and you spend about 10 hours each week in your office keeping books, making appointments and contacting new clients. During the remainder of the week, you work at various sites talking with clients, setting up computer systems and troubleshooting existing systems. Even though your business would fold without the 10 hours you spend each week in your office, the majority of your time, as well as your principal activity (dealing with customers and their computer needs) is spent elsewhere, which means you cannot claim your office expenses.

Now let's say you spend almost all of your time setting up seminars and working on presentations in your home office. Several times a month, you go elsewhere to give one- and two-day seminars. Even though you spend most of your time in your office, if the work you do there is necessary only because of the job you do elsewhere, you may not be able to take a deduction.

Meeting Patients, Clients or Customers. If you meet or deal with patients, clients or customers in your home in the normal course of your business, you can deduct your expenses for the part of your home used exclusively and regularly for business, even if you also have another place of business. This is frequently the case with doctors, attorneys and other professionals who keep second offices in their homes. You must remember, though, that the "exclusive" and "regular" use tests must still be met in order to qualify.

If you've passed all the tests, you can take advantage of this deduction. To do so, divide the relevant expenses of operating your home between the business use and personal use. Be realistic. Don't inflate your business percentage or claim unrelated, non-business expenses.

For more information on how to take the home-office deduction and what expenses qualify, ask for the following free publications:

- ▶ Publication 587, Business Use of Your Home
- ▶ Publication 334, Tax Guide for Small Business. 📖

Advance Earned Income Tax Credit—Financial Aid for Your Employees

The advance earned income tax credit (AEITC) is a special tax break for your lower-income employees with at least one child. Your employees who qualify could receive up to \$100 a month extra take-home pay.

To get the credit, your employee must complete and give you a Form W-5. Based on the W-5, you add the additional amount to the employee's take-home pay each pay period. Then you reduce your required employment



tax deposit by the amount of the AEITC payments you made.

Posters, flyers and pay-check stuffers that explain the credit are available by calling the Taxpayer Education Coordinator at 1-800-829-1040.

For more information about the AEITC, ask for the following free publication.

- ▶ Publication 15, Circular-E, Employer's Tax Guide 📖

COMMON REPORTING ERRORS

How to Avoid Errors

Incorrect or missing Employer Identification Number (EIN):

The Social Security Administration (SSA) and the IRS keep employer records by EIN. Reports received with the wrong EINs may be credited to the wrong records. The IRS may assess penalties for failure to file correct reports if your EIN is either missing or incorrect.

Incorrect Employee Names and Social Security Numbers:

SSA cannot credit earnings to employee records unless the employee name and social security number on the wage report match the name and number in SSA's files.

Wage reports for years after employee's death:

Payments on behalf of a dead employee, made after the year he or she died, cannot be credited as wages for social security purposes. Such payments should be reported on Form 1099-MISC, Miscellaneous Income. 📖

IRS PENALTIES

Don't pay more than you have to!

Penalties are used by the IRS to encourage taxpayers to obey the tax laws. Below are some of the penalties you should know about.

Bad Checks: Sending the IRS a bad check or money order may cost you two percent of the check amount. However, if the check is for less than \$750, the penalty is \$15 or the amount of the check, whichever is less.

Fraud: The civil penalty is 75 percent of the underpayment amount attributable to fraud. A taxpayer is charged with fraud when the IRS can prove the taxpayer willfully evaded taxes. Fraud may also be prosecuted as a federal criminal case by the United States Attorney.

Accuracy: The penalty is 20 percent of the portion of underpayment of tax attributable to negligence, intentional disregard of tax rules, or to any substantial understatement of income tax, and in certain other circumstances. Examples could include claiming a tax deduction without any information to back it up or claiming a personal expense as a business deduction. ☺

EXERCISING EXCISE TAXES

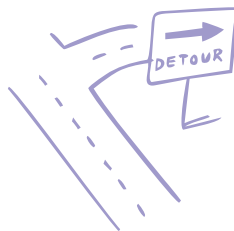
An excise tax is a special tax on a particular good or service. Usually, the maker or seller of the good or service pays excise taxes, but sometimes the user pays them. As a business owner, you may have to pay excise taxes such as...

Environmental Taxes.

These are collected on domestic crude oil, imported petroleum products, chemicals, imported chemical substances, and ozone-depleting chemicals. Use Form 6627, "Environmental Taxes," to figure your tax. Then report it on Form 720, "Quarterly Federal Excise Tax Return."



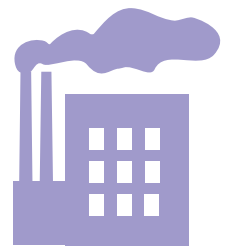
Highway Use Taxes.



These are assessed on certain trucks, truck tractors and buses that weigh 55,000 pounds or more that are driven on public highways. Report this excise tax on Form 2290, "Highway Use Tax." Also, if yours is the first business to sell a particular truck, trailer or tractor that weighs over 33,000 pounds, you must pay a 12-percent excise tax. (This does not mean the first time you personally sell the vehicle, but the first time it has ever been sold by anyone.)

Manufacturers' Taxes.

Makers, producers and importers of certain goods such as sport fishing equipment, bows and arrows, coal, and tires have to pay this tax. How much tax you pay at the time of sale depends on the item. For example, a 10-percent tax is assessed on some sport fishing equipment, and you must pay 11 percent when you sell certain types of bows and arrows.



Luxury Tax.



If as part of your business, you sell passenger vehicles priced over \$32,000, you must pay a 10-percent luxury tax on the first sale of the vehicle. For 1994, the tax is 10 percent of the amount by which the sales price exceeds \$32,000.

For more information on excise taxes, see Publication 510, Excise Taxes for 1995 ☺