Tax Tips

Internal
Revenue
Service

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Washington, D.C. 20224

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Tax calendar

February 1

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

February 3

Deposit payroll tax for payments on January 28, 29, 30 and 31.

February 8

Deposit payroll tax for payments on February 1, 2 and 3.

February 9

Deposit environmental, fuel, luxury, retail and manufacturers tax for the last 16 days of January.

February 10

Deposit payroll tax for payments on February 4, 5, 6 and 7.

File Form 945 to report income tax withheld for 1994 on all nonpayroll items.

File Form 941 for the fourth quarter of 1994, if you deposit the tax for the quarter in full and on time.

File Form 940 (or 940-EZ) to report federal unemployment tax for 1994, if you deposited the tax for the year in full and on time.

Farm employers file Form 943 to report social security, Medicare and withheld income tax for 1994, if you deposited the tax for the year in full and on time.

February 14

Deposit gas tax for last 16 days of January if the 14-day rule applies.

February 15

Deposit payroll tax for payments in January if the semiweekly rule did not apply.

Deposit payroll tax for payments on February 8, 9 and 10.

February 17

Deposit payroll tax for payments on February 11, 12, 13 and 14.

February 23

Deposit payroll tax for payments on February 15, 16 and 17.

February 24

Deposit payroll tax for payments on February 18, 19, 20 and 21.

Deposit environmental, fuel, luxury, retail and manufacturers tax for the first 15 days of February.

February 28

All employers file Form W-3, “Transmittal of Wage and Tax Statements,” along with Copy A of all Forms W-2 you issued for 1994.

File Form 730 and pay tax on bets acepted during January.

File Form 2290 and pay heavy vehicle use tax (or first installment) for vehicles first used in January.

For more information on other excise taxes, see Publication 509, "Tax Calendars for 1995" and Publication 510, "Excise Taxes for 1995."

Department of the Treasury • Internal Revenue Service • Publication 1518 (rev. 2/94) • Catalog No. 12350Z

February 1995

Tax Tips

A NEWSLETTER FOR NEW BUSINESSES

courtesy of

The Internal Revenue Service

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

DEPRECIATION

As years go by business equipment loses its value from wear and tear, it deteriorates beyond use, or becomes obsolete. Depreciation is a good thing as far as taxes go because over time you can take deductions for certain property and eventually deduct most of what you paid for it.

To claim a depreciation deduction on an item:

- ✓ you must use it for business or to produce income,
- ✓ it must have a useful life of more than one year, and
- ✓ it must be something that actually wears out, decays or becomes obsolete.

You can begin to depreciate the property as soon as you start using it. For tax purposes this means as soon as it is ready to be used, not when you actually put it to use. You stop depreciating the property when you've recovered all the money you paid for it or when you stop using it.

The kind of property you own affects how, or even if, you can claim deductions, and falls into two categories: tangible and intangible.

Tangible property can be seen or touched like buildings, cars, machinery or equipment. If you own tangible property that you use for both personal and business purposes, you may take deductions for only the business use, and for only the part of the property that loses value. Some things do not depreciate in value and can't be deducted at all. For example, you can't deduct land because it does not wear out or become obsolete. Inventory does not qualify for the depreciation deduction, either.

Intangible property is anything that has value, but can't be seen or touched like copyrights, franchises, or patents. If you can determine the "life" of intangible property, you can generally claim a deduction for it. For example, the useful life of a patent or copyright is whatever amount of time the government grants it.

So, how do you claim depreciation deductions? Use Form 4562, "Depreciation and Amortization," and attach it to your tax return when you file.

If you can't wait to recover your money a little at a time, you can deduct all or part of the cost of property used in your business at once—the year you start to use it. This is called the section 179 deduction. The advantage to section 179 is that you get more money up front, which can be helpful to a fledgling business with tight cashflow. Like depreciation deductions, you can claim section 179 when your property is "placed in service," which means when it's ready to use. But there are a few limitations:

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- ✓ You can't claim this deduction for real estate or for property you get from certain persons or groups,
- ✓ the maximum section 179 deduction for 1994 is $17,500 and
- ✓ the deductible expense can't be more than the total amount of your business's taxable income for the year plus your wages and salaries.

To claim the section 179 deduction use Form 4562 and attach it to your tax return when you file.

For more information on depreciation and section 179, ask for the following free publications.

- *Publication 534, Depreciation*
- *Publication 946, How To Begin Depreciating Your Property.*

How To Make Good On A Bad Debt

There is some relief for businesses that suffer bad debts. But the rules that govern what a bad debt is, how it can be deducted and the records needed to support such a claim must be carefully followed.

Some of the considerations to keep in mind:

- To be a business bad debt, it has to come from the operation of your trade or business.
- For a bad debt to be deductible there must be a creditor-debtor relationship between you and the person or business that owes you money.
- If only a portion of the debt is uncollectible, only that part can be declared as a bad debt.

Generally, you can deduct business bad debts only if you use the accrual method of accounting. That is, you report your income when you earn it and you report your expenses as they occur. Under that method, you would have reported the income at the time you earned it, before you realized the debt was not going to be paid. Unfortunately, if you provided a "service", as opposed to an "item," there would be no way to write it off.

As with almost all tax actions, be sure to keep good records. To take the deduction, you must prove that the bad debt is not going to be paid. The IRS will particularly want to see attempts to collect the debt, and proof such as:

- specifics to indicate the account is worthless,
- legal actions taken, or
- bankruptcy of the debtor.

The bottom line is, if your bottom line is suffering from bad debts, don't suffer in silence. You may be able to claim some very worthwhile tax deductions.

For more information about bad debts, ask for the following free IRS publications.

- *Publication 334, Tax Guide for Small Business*
- *Publication 535, Business Expenses.*

COMMON REPORTING ERRORS

Errors Common to Form 941 Filers

- Incorrect or omitted tips and Medicare wage amounts: You must show tips and Medicare wages separately on Forms 941; Medicare wages are not subject to a yearly taxable maximum after 1993.
- Showing non-covered amounts as social security/Medicare wages: Examples of non-covered amounts are:
  - employee earnings that exceed the yearly taxable amount for social security wages
  - payments to independent contractor shown as wages
- Failing to file Forms W-3c and W-2c with the Social Security Administration (SSA) when adjusting prior year earnings on Form 941 or Form 941c: Adjustment of tax liability filed with IRS, that is based on changes in social security/Medicare wages, should be matched by filing wage adjustment forms W-3c and W-2c with SSA to enter the wage changes on employees' records.
- Filing duplicate or partially duplicate Form 941s: Social security/Medicare wages shown on duplicate 941s or partially duplicate 941s (e.g., reporting one month's wages on two different quarterly reports) may lead to unnecessary and costly reconciliation among you, SSA and IRS.

FASTER

Federal Tax Deposits

There is a new state-of-the-art system for making federal tax deposits (FTDs) electronically. This new system reduces paperwork, time and costs involved in making FTDs, and is being tested nationwide.

The new Electronic Federal Tax Payment System allows users to employ the capabilities of telephones or personal computers, or to make payment arrangements with their own banks. In addition to being more convenient and efficient, payments made through electronic transfer can be posted to tax accounts more quickly and accurately. That means fewer problems with misapplied payments and less correspondence with the Internal Revenue Service.

Users can choose either the debit or credit option. In the debit option, they authorize a third party to debit their bank account. The third party is a financial institution that has been designated as a financial agent for the Treasury. With the credit option, users or their banks may send a credit payment to Treasury's account at the Federal Reserve Bank.

For more information on the new Electronic Federal Tax Payment System, write to the IRS at:

Cash Management Site Office
Atlanta Service Center
P.O. Box 47669
Stop 295
Doraville, GA 30362

or call the helpline at
1-800-829-5469.

Small Business Owners May Need an EIN

A social security number helps identify you when you file federal income tax forms such as Form 1040 and its schedules.

However, partnerships and corporations must have a special employer identification number (EIN) to use for identification. If you are a sole proprietor and pay wages to one or more employees, or you file any pension or excise tax returns, you too must have an EIN.

The IRS also uses the EIN to identify tax accounts of individuals and organizations that have no employees but file federal returns other than personal income tax returns. In some cases, even though the IRS may not require an EIN, a third party such as a bank may require a business identification number. You may use your EIN for this purpose.

To get an EIN, fill out Form SS-4, "Application for Employer Identification Number," and mail it to the nearest IRS service center. Or, you can call a service center directly, and get your EIN right over the phone. (Complete Form SS-4 before calling, and someone will take your information and assign you an EIN.)

Call to order Form SS-4, or for further information on EINs.

Oops!

Setting the Record Straight with the IRS

Making an error or missing a tax filing deadline doesn't have to be a major problem, particularly if you take prompt action to set things right. Following are the proper fix-it procedures:

Form 941, "Employer's Quarterly Federal Tax Return." If you err in the amounts of taxes you withheld from employees, attach a statement explaining your mistake and that you are making an appropriate adjustment.

Form 941c, "Supporting Statement to Correct Information." Generally, you must fill out this form if the amount of employee wages you reported for a past year was wrong. If that's the case you may have to fill out two more forms:

Form W-2c, "Statement of Corrected Income and Tax Amounts," and Form W-3c, "Transmittal of Corrected Income and Tax Statements." These forms are used to correct the information about your employees' total earnings and withholding for the year.

Form 1040X, "Amended U.S. Individual Income Tax Return." If you made a mistake on your individual tax return, use this form. Fill in income, deductions and credits as you did originally and then make the appropriate changes. If you owe tax you should send it in with the form.