

Taxes for Tuners
Tax Notes for Small Business

Aleta Woodworth EA ABA

<http://www.taxbabe.com>

Dean's PTG Notes

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Aleta is an enrolled agent to represent people for the IRS. Last year she took 64 hours of education officially, plus did a lot of reading and emails. She must re-enroll annually, and has been doing this professionally for thirty years.

When paying state sales tax, don't include the tax collected in your total net income. Is tuning a service or retail? Landscapers who mow a lawn do not charge sales tax, but if they dig a hole, they do. Ed believes that if what we do improves the value of the possession, it is taxable; consequently he charges tax on tunings. Dean believes that if we physically alter the possession it is taxable, and tuning does not physically alter the instrument; consequently he does not tax a tuning.

Keep copies of all bank statements for the entire life of a business. Keep all tax returns for life. Supporting documents that are necessary are bank statements, receipts, invoices, and tax records. Records for law suits go back for decades. Keep back-up copies of critical papers.

Inheritance is taxable: K1, E2 page 2.

1. Business vs. Personal

The cleanest way to protect yourself is to keep business and personal income and expenses separate. That means a separate checking account as well as credit card. To pay yourself, if a sole proprietor or LLC, pay it as a draw. If you want to shop at the grocery store, use the personal account.

2. Track Your Mileage

Guessing has never been the correct way to track mileage. Now it must be written somewhere. Use a calendar or day planner to track mileage. Get in the habit of writing your mileage on your gas receipts. Get an oil change near January 1 to document ending/beginning mileage on the car. For 2011, you have to list mileage for January-June and July-December, as there are two different rates. Parking and tolls are good for either method of calculating your mileage expense. You MUST have the mileage whether taking the standard rate(s) or use actual costs. Mileage in 2011 has two different rates: January through June is 55.5 cents, and July through December is 55 cents. Keep track of mileage daily. If you get audited and you don't have written documentation, that information is thrown out. Written evidence is vital. Personal vehicle use must be separated from business use of vehicles.

3. Charitable Donation

Sole proprietors and partners/members cannot deduct their time for charitable donations, such as a certificate for tuning services. Other costs are generally already deducted, so that can't be taken twice. But it is a great promotion tool that can bring some paying business later. Industries that have to do with our time are not able to deduct our time. For example, a gift certificate for a piano tuning is not deductible. A donated piano is a deductible promotional expense.

4. **Estimated Taxes** Sole Proprietors and Partners/Members **MUST** pay estimated taxes on April 15, June 15, September 15 and January 15. Not doing so may result in additional penalties if you owe taxes by the time you file. IRS is vigorously assessing penalties to those who wait until April to pay. And waiting until the October 15 extension date can make those penalties even higher. Not filing an extension can bring even more penalties. Sometimes the penalties read or exceed 100% of the tax due. There is an audit manual that tells what might be flagged. For example, excess mileage, extremes of income or expenses, and unrelated deductions. Pay estimated taxes every quarter; if you don't, two different penalties are assessed: failure to pay and failure to file. You can be penalized as much as the amount of taxes that are due. At least pay by January. Pay 110% of last year unless your income has gone down. Estimated taxes must be in house by the deadline or they will be penalized.

5. Business Use of the Home

If you don't have an office elsewhere, you can take a Business in Home deduction for the portion of the home used exclusively for running the administrative side of your business, such as making calls, scheduling, invoicing and accounting. Form 8829 is used for this purpose. A percentage of the mortgage and real estate taxes can be taken as well as other expenses of maintaining the home, such as utilities, repairs and insurance. If you have to do some remodeling of the room or rooms used, i.e. a work bench, you can capitalize these improvements and use the depreciation as an expense. **Caution:** if you use this deduction and sell your home, the depreciation must be recaptured on a **Form 4797** in the year of the sale.

6. Assets

These are items such as tools that will last more than a year. Small tools can be expensed. Those generally are expendable or have to be replaced more often. Assets get depreciated and are reported on **Form 4562**. Depreciation is often taken over several years, but some taxpayers like to take a **Section 179** deduction, depreciating the full amount of the purchase, especially for items like a computer or some tools. However, if the item is disposed of before its "life," you may have to add back in some of the accelerated depreciation.

7. Licensing

Many small business people find out after several years that they should have registered for licensing with the state and/or local agencies. The IRS and states have reciprocal agreements to share Form 1099 information with each other.

8. Forms

IRS has increased penalties for businesses that don't report payments over \$600 made to those who provide services to you. That isn't just subcontractors. Accountants, lawyers, janitors, contractors and others (except retailers) may be eligible for these forms. It is wise to get a **Form W-9** from anyone who performs services for your business. Forms can be found from the IRS at <http://www.irs.gov>.

9. Tax Questions?

Go to www.irs.gov and click on the tab for Small Businesses. There are many You-Tube videos giving answers for a host of situations for small business owners and for your personal taxes. Call after 6:00 when the time is more relaxed after the east coast busy time.