

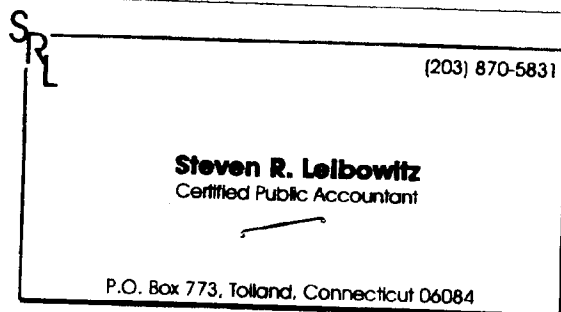
TAX GUIDANCE FOR SMALL BUSINESSES

Recordkeeping

1. You should maintain a separate bank account and deposit all business receipts in that account.
2. If possible, you should make all disbursements by check. A canceled check by itself does not prove a business expense without other evidence to show that it was for a business purpose.
3. If you must use cash, make sure you get and keep a receipt.
4. Keep records supporting income and expense items for 3 years after the date your return is due or filed.

Business Assets

1. Generally you must capitalize and depreciate certain business assets.
2. Examples of items that are required to be capitalized are:
 - a. Computer
 - b. Fax machine
 - c. Telephone
 - d. Answering machine
3. When you capitalize an item you recover the cost of that item over a number of years. This is done by deducting a percentage of the cost of the item over a number of years. (Generally 5 years.)
4. You may elect to deduct in one tax year a limited amount of what you spend on business assets. The maximum amount you may deduct is \$17,500. This \$17,500 applies to each taxpayer and not to each business operated by a taxpayer.
5. The total cost that can be deducted in one year is limited to the taxable income from the active conduct of any trade or business during the tax year.



6. Taxable income is figured by aggregating the net income (or loss) from all trades or businesses you and your spouse (if you file a joint return) actively conducted during the year.

7. Also included in the aggregate taxable income is any wages or salaries you earned as an employee.

Travel Expenses - *overnight*

1. Travel expenses are ordinary and necessary expenses that you pay while traveling away from home for your business.

2. An ordinary expense is one that is common and accepted in your field of business.

3. A necessary expense is one that is helpful and appropriate to your business.

4. Deductible travel expenses:

a. Transportation (airplane, train, bus).

b. Taxi, commuter bus or limousine

c. Car

d. Lodging

e. Meals (only 50% deductible) - *can eat by self*

f. Cleaning and laundry expenses.

g. Telephone

*whereas entertainment
must include client*

Car Expenses

1. If you use your car for business purposes, you may deduct car expenses.

2. You can use one of two methods to figure your expenses: actual expenses or the standard mileage rate.

Should keep log of bus. + total miles

3. Whether you use actual expenses or the standard mileage rate, you must keep records to show when you started using your car for business. Your records must also show the business miles and the total miles you drove your car during the year.

4. If you choose actual expenses, you can deduct the cost of the following items:
 - a. Depreciation
 - b. Gas
 - c. Insurance
 - d. Oil
 - e. Parking fees
 - f. Repairs
 - g. Tires
 - f. Tolls
5. Instead of figuring actual expenses, you may use the standard mileage rate. For 1994 the standard mileage rate is 29 cents a mile. If you choose the standard mileage rate you cannot deduct actual expenses (only parking fees and tolls may be deducted).
6. You must choose to use the standard mileage rate the first year you place the car in service for business purposes.

Entertainment Expenses

1. You may deduct business-related entertainment expenses you have for entertaining a client.
2. Claiming a deduction for entertainment is limited. You can deduct only 50% of the entertainment expense.

Interest Expense

1. Generally all interest expense is non deductible except for mortgage, investment and trade or business interest.
2. Any interest expense incurred in your trade or business is deductible. For example interest from your credit cards are generally not deductible. But if the credit card is used solely for your business or has business purchases as part of the financed balance then this interest would be deductible.
3. Interest would also be deductible from an automobile loan to the extent that the auto is used in your trade of business.

- 90 on bus. expenses
→ even on auto loan!

Business Use of Home

*solely used for bus.
cannot create loss*

1. You are only entitled to deduct any expenses of using your home for business purposes if a specific portion of your home is used exclusively for carrying on a trade or business.
2. Examples of items that may be deductible are depreciation, insurance, maintenance, and utilities.
3. The home office deduction is limited to the gross income from that business reduced by expenses that are deductible without regard to business use (such as home mortgage interest and property taxes) and all other deductible expenses.

Self-Employment Tax

1. The self-employment tax is a social security and Medicare tax for individuals who work for themselves.
2. You are liable for self-employment tax even if you are now fully insured under social security and are now receiving benefits.
3. You must pay self-employment tax if you have net earnings from self-employment of \$400 or more.
4. The self-employment tax rate for 1994 is 15.3% (12.4% social security tax and 2.9% Medicare tax). However you can take a deduction of 7.65% of your net earnings self-employment income when figuring your net earnings from self-employment. This deduction is not allowed for income tax purposes.
5. No more than \$60,600 of your combined wages and net earnings is subject to the social security tax.
- ! < 6. There is no limit on the Medicare tax.
7. You are allowed a deduction of 50% of your self employment tax in arriving at adjusted gross income.

Retirement Plans for the Self Employed

1. The two most common type of retirement plans for self employed individuals are a Keogh plan and a simplified employee pension (SEP).

*from
walks you
than this !*

2. A SEP plan is generally easier to set up than a Keogh plan. But some advantages available to Keogh plans such as the special averaging treatment on lump sum distributions, do not apply to SEPs.
3. The maximum amount you may contribute to defined contribution Keogh plan or a SEP plan is the smaller of \$30,000 or 15% of your net business earnings less your deduction for 50% of your self-employment tax and the deduction for your contribution to the retirement plan itself. Simply speaking your deduction is limited to \$30,000 or 13.0435% of your net business earnings less the self employment tax deduction.

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Profit or Loss From Business

(Sole Proprietorship)

▶ Partnerships, joint ventures, etc., must file Form 1065.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

OMB No. 1545-0074

1993

Attachment
Sequence No. **09**

Name of proprietor		Social security number (SSN)				
A Principal business or profession, including product or service (see page C-1)		B Enter principal business code (see page C-6) ▶				
C Business name. If no separate business name, leave blank.		D Employer ID number (EIN), if any				
E Business address (including suite or room no.) ▶ City, town or post office, state, and ZIP code						
F Accounting method: (1) <input type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) ▶						
G Method(s) used to value closing inventory: (1) <input type="checkbox"/> Cost (2) <input type="checkbox"/> Lower of cost or market (3) <input type="checkbox"/> Other (attach explanation) (4) <input type="checkbox"/> Does not apply (if checked, skip line H)		<table border="1" style="width: 100px; height: 100px;"> <tr> <th>Yes</th> <th>No</th> </tr> <tr> <td> </td> <td> </td> </tr> </table>	Yes	No		
Yes	No					
H Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation						
I Did you "materially participate" in the operation of this business during 1993? If "No," see page C-2 for limit on losses.						
J If you started or acquired this business during 1993, check here <input type="checkbox"/>						

Part I Income

1 Gross receipts or sales. <i>Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here</i>	▶ <input type="checkbox"/>	1		
2 Returns and allowances		2		
3 Subtract line 2 from line 1		3		
4 Cost of goods sold (from line 40 on page 2)		4		
5 Gross profit. Subtract line 4 from line 3		5		
6 Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-2)		6		
7 Gross income. Add lines 5 and 6		7		

Part II Expenses. Caution: Do not enter expenses for business use of your home on lines 8-27. Instead, see line 30.

8 Advertising	8					
9 Bad debts from sales or services (see page C-3)	9					
10 Car and truck expenses (see page C-3)	10					
11 Commissions and fees.	11					
12 Depletion.	12					
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-3)	13					
14 Employee benefit programs (other than on line 19)	14					
15 Insurance (other than health)	15					
16 Interest:	16					
a Mortgage (paid to banks, etc.)	16a					
b Other	16b					
17 Legal and professional services	17					
18 Office expense	18					
19 Pension and profit-sharing plans	19					
20 Rent or lease (see page C-4):	20					
a Vehicles, machinery, and equipment	20a					
b Other business property	20b					
21 Repairs and maintenance	21					
22 Supplies (not included in Part III)	22					
23 Taxes and licenses	23					
24 Travel, meals, and entertainment:	24					
a Travel	24a					
b Meals and entertainment						
c Enter 20% of line 24b subject to limitations (see page C-4)						
d Subtract line 24c from line 24b	24d					
25 Utilities	25					
26 Wages (less jobs credit)	26					
27 Other expenses (from line 46 on page 2)	27					
28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns.	28					
29 Tentative profit (loss). Subtract line 28 from line 7	29					
30 Expenses for business use of your home. Attach Form 8829	30					
31 Net profit or (loss). Subtract line 30 from line 29.	31					
<ul style="list-style-type: none"> • If a profit, enter on Form 1040, line 12, and ALSO on Schedule SE, line 2 (statutory employees, see page C-5). Fiduciaries, enter on Form 1041, line 3. • If a loss, you MUST go on to line 32. 						
<ul style="list-style-type: none"> 32 If you have a loss, check the box that describes your investment in this activity (see page C-5). • If you checked 32a, enter the loss on Form 1040, line 12, and ALSO on Schedule SE, line 2 (statutory employees, see page C-5). Fiduciaries, enter on Form 1041, line 3. • If you checked 32b, you MUST attach Form 8198. 						
						32a <input type="checkbox"/> All investment is at risk. 32b <input type="checkbox"/> Some investment is not at risk.

Part III Cost of Goods Sold (see page C-5)

33	Inventory at beginning of year. If different from last year's closing inventory, attach explanation	33		
34	Purchases less cost of items withdrawn for personal use	34		
35	Cost of labor. Do not include salary paid to yourself	35		
36	Materials and supplies	36		
37	Other costs	37		
38	Add lines 33 through 37	38		
39	Inventory at end of year	39		
40	Cost of goods sold. Subtract line 39 from line 38. Enter the result here and on page 1, line 4	40		

Part IV Information on Your Vehicle. Complete this part **ONLY** if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business.

- 41 When did you place your vehicle in service for business purposes? (month, day, year) ▶ / /
- 42 Of the total number of miles you drove your vehicle during 1993, enter the number of miles you used your vehicle for:
- a Business b Commuting c Other
- 43 Do you (or your spouse) have another vehicle available for personal use? Yes No
- 44 Was your vehicle available for use during off-duty hours? Yes No
- 45a Do you have evidence to support your deduction? Yes No
- b If "Yes," is the evidence written? Yes No

Part V Other Expenses. List below business expenses not included on lines 8-26 or line 30.

46	Total other expenses. Enter here and on page 1, line 27	46	

**SCHEDULE SE
(Form 1040)**

Department of the Treasury
Internal Revenue Service

Self-Employment Tax

▶ See instructions for Schedule SE (Form 1040).

▶ Attach to Form 1040.

OMB No. 1545-0074

1993

Attachment
Sequence No. 17

Name of person with self-employment income (as shown on Form 1040)

Social security number of person
with self-employment income ▶

Who Must File Schedule SE

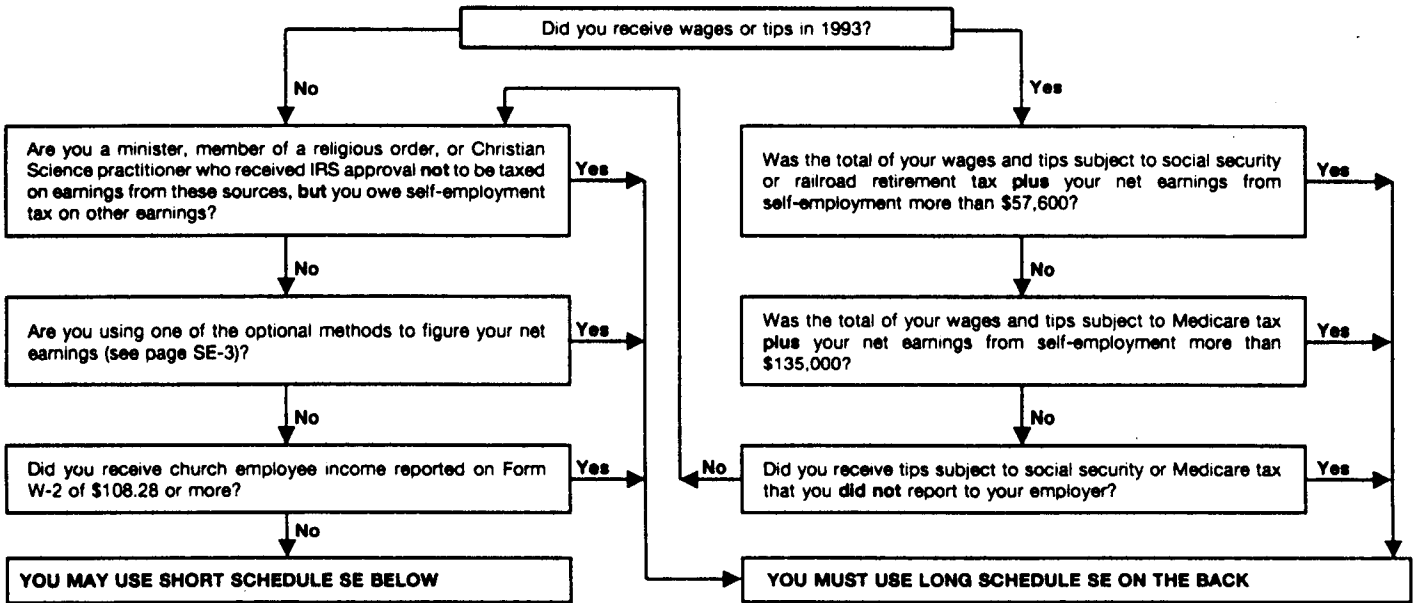
You must file Schedule SE if:

- Your wages (and tips) subject to social security AND Medicare tax (or railroad retirement tax) were less than \$135,000; AND
- Your net earnings from self-employment from other than church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) were \$400 or more; OR
- You had church employee income of \$108.28 or more. Income from services you performed as a minister or a member of a religious order is not church employee income. See page SE-1.

Note: Even if you have a loss or a small amount of income from self-employment, it may be to your benefit to file Schedule SE and use either "optional method" in Part II of Long Schedule SE. See page SE-3.

Exception. If your only self-employment income was from earnings as a minister, member of a religious order, or Christian Science practitioner, AND you filed Form 4361 and received IRS approval not to be taxed on those earnings, DO NOT file Schedule SE. Instead, write "Exempt-Form 4361" on Form 1040, line 47.

May I Use Short Schedule SE or MUST I Use Long Schedule SE?



Section A—Short Schedule SE. Caution: Read above to see if you can use Short Schedule SE.

- 1 Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a
- 2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; and Schedule K-1 (Form 1065), line 15a (other than farming). Ministers and members of religious orders see page SE-1 for amounts to report on this line. See page SE-2 for other income to report
- 3 Combine lines 1 and 2
- 4 **Net earnings from self-employment.** Multiply line 3 by 92.35% (.9235). If less than \$400, do not file this schedule; you do not owe self-employment tax ▶
- 5 **Self-employment tax.** If the amount on line 4 is:
 - \$57,600 or less, multiply line 4 by 15.3% (.153) and enter the result.
 - More than \$57,600 but less than \$135,000, multiply the amount in excess of \$57,600 by 2.9% (.029). Then, add \$8,812.80 to the result and enter the total.
 - \$135,000 or more, enter \$11,057.40.
 Also enter on Form 1040, line 47. (Important: You are allowed a deduction for one-half of this amount. Multiply line 5 by 50% (.5) and enter the result on Form 1040, line 25.)

1		
2		
3		
4		
5		

Name of person with self-employment income (as shown on Form 1040)	Social security number of person with self-employment income ▶

Section B—Long Schedule SE

Part I Self-Employment Tax

Note: If your only income subject to self-employment tax is church employee income, skip lines 1 through 4b. Enter -0- on line 4c and go to line 5a. Income from services you performed as a minister or a member of a religious order is not church employee income. See page SE-1.

A If you are a minister, member of a religious order, or Christian Science practitioner **AND** you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I.

1 Net farm profit or (loss) from Schedule F, line 36, and farm partnerships, Schedule K-1 (Form 1065), line 15a. Note: Skip this line if you use the farm optional method. See page SE-3	1		
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; and Schedule K-1 (Form 1065), line 15a (other than farming). Ministers and members of religious orders see page SE-1 for amounts to report on this line. See page SE-2 for other income to report. Note: Skip this line if you use the nonfarm optional method. See page SE-3	2		
3 Combine lines 1 and 2	3		
4a If line 3 is more than zero, multiply line 3 by 92.35% (.9235). Otherwise, enter amount from line 3	4a		
b If you elected one or both of the optional methods, enter the total of lines 17 and 19 here	4b		
c Combine lines 4a and 4b. If less than \$400, do not file this schedule; you do not owe self-employment tax. Exception. If less than \$400 and you had church employee income, enter -0- and continue . ▶	4c		
5a Enter your church employee income from Form W-2. Caution: See page SE-1 for definition of church employee income	5a		
b Multiply line 5a by 92.35% (.9235). If less than \$100, enter -0-	5b		
6 Net earnings from self-employment. Add lines 4c and 5b	6		
7 Maximum amount of combined wages and self-employment earnings subject to social security tax or the 6.2% portion of the 7.65% railroad retirement (tier 1) tax for 1993	7	57,600	00
8a Total social security wages and tips (from Form(s) W-2) and railroad retirement (tier 1) compensation	8a		
b Unreported tips subject to social security tax (from Form 4137, line 9)	8b		
c Add lines 8a and 8b	8c		
9 Subtract line 8c from line 7. If zero or less, enter -0- here and on line 10 and go to line 12a ▶	9		
10 Multiply the smaller of line 6 or line 9 by 12.4% (.124)	10		
11 Maximum amount of combined wages and self-employment earnings subject to Medicare tax or the 1.45% portion of the 7.65% railroad retirement (tier 1) tax for 1993.	11	135,000	00
12a Total Medicare wages and tips (from Form(s) W-2) and railroad retirement (tier 1) compensation	12a		
b Unreported tips subject to Medicare tax (from Form 4137, line 14)	12b		
c Add lines 12a and 12b	12c		
13 Subtract line 12c from line 11. If zero or less, enter -0- here and on line 14 and go to line 15	13		
14 Multiply the smaller of line 6 or line 13 by 2.9% (.029)	14		
15 Self-employment tax. Add lines 10 and 14. Enter here and on Form 1040, line 47. (Important: You are allowed a deduction for one-half of this amount. Multiply line 15 by 50% (.5) and enter the result on Form 1040, line 25.)	15		

Part II Optional Methods To Figure Net Earnings (See page SE-3.)

Farm Optional Method. You may use this method **only** if (a) Your gross farm income¹ was not more than \$2,400 or (b) Your gross farm income¹ was more than \$2,400 and your net farm profits² were less than \$1,733.

16 Maximum income for optional methods	16	1,600	00
17 Enter the smaller of: two-thirds (⅔) of gross farm income ¹ (not less than zero) or \$1,600. Also, include this amount on line 4b above	17		

Nonfarm Optional Method. You may use this method **only** if (a) Your net nonfarm profits³ were less than \$1,733 and also less than 72.189% of your gross nonfarm income,⁴ and (b) You had net earnings from self-employment of at least \$400 in 2 of the prior 3 years. **Caution:** You may use this method no more than five times.

18 Subtract line 17 from line 16	18		
19 Enter the smaller of: two-thirds (⅔) of gross nonfarm income ⁴ (not less than zero) or the amount on line 18. Also, include this amount on line 4b above	19		

¹From Schedule F, line 11, and Schedule K-1 (Form 1065), line 15b.

³From Schedule C, line 31; Schedule C-EZ, line 3; and Schedule K-1 (Form 1065), line 15a.

²From Schedule F, line 36, and Schedule K-1 (Form 1065), line 15a.

⁴From Schedule C, line 7; Schedule C-EZ, line 1; and Schedule K-1 (Form 1065), line 15c.

Depreciation and Amortization
(Including Information on Listed Property)

Department of the Treasury
Internal Revenue Service

▶ See separate instructions. ▶ Attach this form to your return.

Attachment
Sequence No. **67**

Name(s) shown on return

Identifying number

Business or activity to which this form relates

Part I Election To Expense Certain Tangible Property (Section 179) (Note: If you have any "Listed Property," complete Part V before you complete Part I.)

1	Maximum dollar limitation (If an enterprise zone business, see instructions.)	1	\$17,500
2	Total cost of section 179 property placed in service during the tax year (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation	3	\$200,000
4	Reduction in limitation. Subtract line 3 from line 2, but do not enter less than -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1, but do not enter less than -0-. (If married filing separately, see instructions.)	5	
6	(a) Description of property	(b) Cost	(c) Elected cost
7	Listed property. Enter amount from line 26.	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	
10	Carryover of disallowed deduction from 1992 (see instructions)	10	
11	Taxable income limitation. Enter the smaller of taxable income or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 1994. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property (automobiles, certain other vehicles, cellular telephones, certain computers, or property used for entertainment, recreation, or amusement). Instead, use Part V for listed property.

Part II MACRS Depreciation For Assets Placed in Service ONLY During Your 1993 Tax Year (Do Not Include Listed Property)

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
14 General Depreciation System (GDS) (see instructions):						
a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g Residential rental property			27.5 yrs.	MM	S/L	
h Nonresidential real property			27.5 yrs.	MM	S/L	
15 Alternative Depreciation System (ADS) (see instructions):						
a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part III Other Depreciation (Do Not Include Listed Property)

16	GDS and ADS deductions for assets placed in service in tax years beginning before 1993 (see instructions)	16	
17	Property subject to section 168(f)(1) election (see instructions)	17	
18	ACRS and other depreciation (see instructions)	18	

Part IV Summary

19	Listed property. Enter amount from line 25.	19	
20	Total. Add deductions on line 12, lines 14 and 15 in column (g), and lines 16 through 19. Enter here and on the appropriate lines of your return. (Partnerships and S corporations—see instructions)	20	
21	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs (see instructions)	21	