

2011 RPMM

Thank you for attending the IRS
2011 Regional Practitioner Meeting.

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of NATP see the Texas Chapter
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Research**

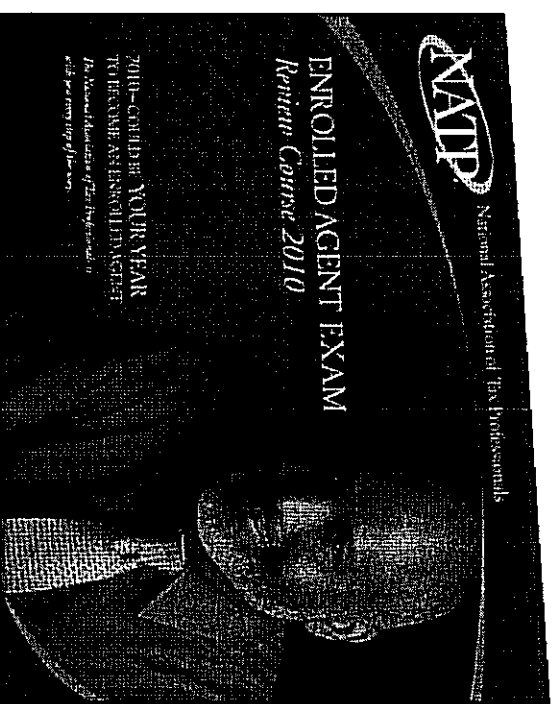
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- National Conferences
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- Online Classes
- Self-Study Programs
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Earn the privilege to represent taxpayers before the IRS, build your credentials, and improve your bottom line with the help of NATP's EA Exam Review course.



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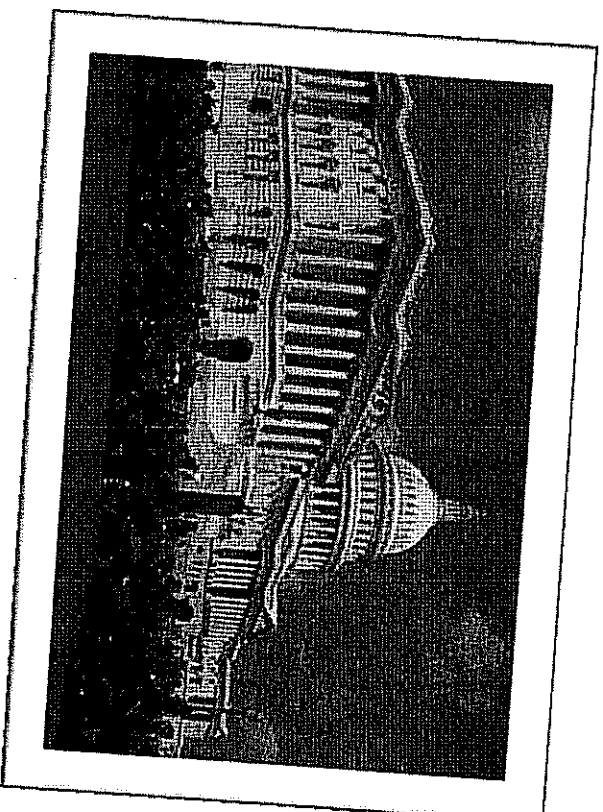
- TAXPRO Journal
- TAXPRO Monthly
- TAXPRO Weekly
- www.natptax.com



Government Relations

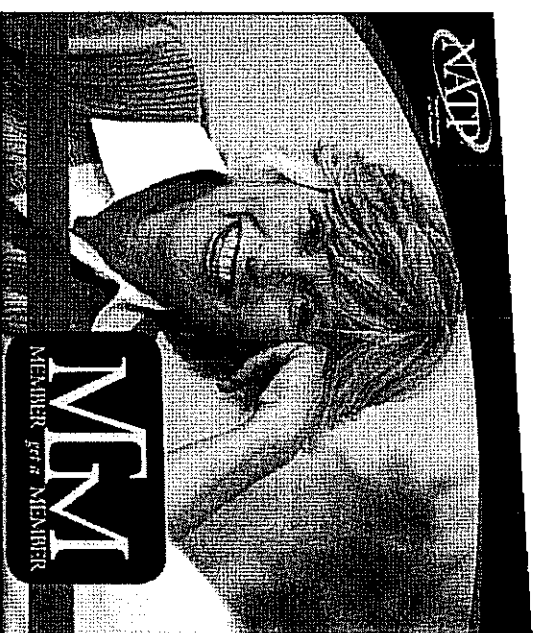
Members' Views Are Expressed to:

- IRS**
- Congress**
- Media**



FREE Membership!

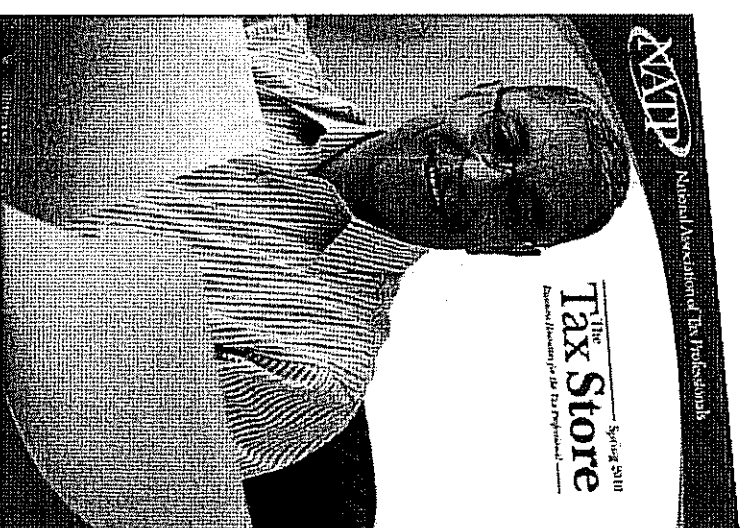
Refer **THREE** new members in a calendar year and you get a one-year membership **FREE!**



Tax Store Catalog

Supplies for Your Office

- Client Folders
- Record Books
- Client Brochures & Newsletters
- Textbooks
- Reference Material



Online Member Benefits

- Fee Study & Software Survey Results
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- Plus Much More!

The screenshot shows the NAPP website interface. At the top, there is a navigation bar with links for Home, Contact Us, News, Find a Tax Pro, and a search bar. Below the navigation bar is the NAPP logo and the text 'National Association of Tax Professionals Examination, Information, Resources'. A central banner features a portrait of a man and the text 'Live Education'. To the left of the banner, an announcement reads: 'Start Making Plans - the 2010 Course Listing is Now Available'. Below the banner, there are sections for 'Highlights' and 'Events & Education'. The 'Highlights' section mentions the 14th Annual Symposium of Tax Professionals (ATP) and lists various topics. The 'Events & Education' section lists upcoming events such as 'Tax 2010 Symposium', '9th International Tax Summit', 'Tax Issues Worldwide', 'E-Source Research Conference', and 'Global Best Value Summit'. At the bottom of the page, there is a 'NAPP Login' section with fields for 'member ID:' and 'password:' and a 'Log In' button. Below the login section, there are links for 'Forgot Your ID?' and 'Forgot Your Password?'. The page also includes a 'Quick Links' section with links to 'View Site Map', 'Tax Professionals' Network', 'NAPP International Society', 'Submit a Membership Question', and 'Email Alerts'.

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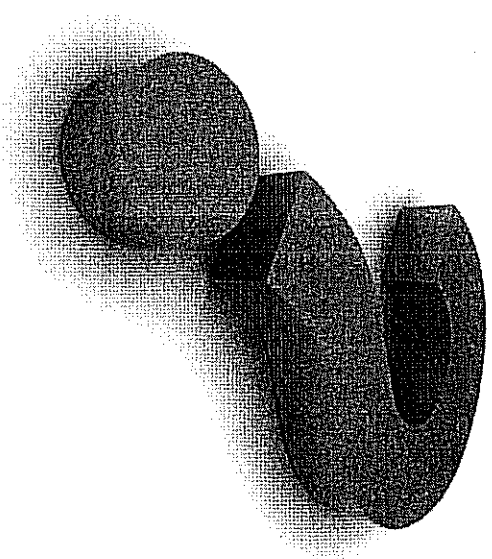
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Questions?

Call NATP toll-free at
800.558.3402, ext. 3

Visit our website at
www.natptax.com



Schedule C

Travel, Meals & Entertainment

THE NINE FACTOR TEST

1. The manner in which the taxpayer carries on the business
2. The expertise of the taxpayer or his/her advisors
3. The time and effort expended by the taxpayer in carrying on the business
4. The expectation that assets used in the business may appreciate in value
5. The success of the taxpayer in carrying on other similar, or dissimilar, businesses
6. The taxpayer's history of income or losses with respect to the business
7. The amount of occasional profits, if any, which are earned
8. The financial status of the taxpayer
9. The elements of personal pleasure or recreation

Reporting HOBBY Income & Expense

- **Income:**
 - Report on Line 21 of Form 1040 as “other income”
- **Expense:**
 - Cannot exceed hobby income
 - Report under ordering rules
 - Category 1 expenses – mortgage interest, property taxes and deductible casualty losses
 - Report as usual on Schedule A
 - Category 2 expenses – (expenses that do not reduce the basis in assets)
 - Report on Schedule A as miscellaneous deduction subject to 2% AGI limitation
 - Category 3 expenses – depreciation, amortization
 - Report on Schedule A as miscellaneous deduction subject to 2% AGI limitation

Schedule C – Page 1

appendix page 1

- Provide the information requested in items A – H.
 - A – Business, Product, Service
 - B – Business code
 - C – Business name
 - D – EIN
 - E – Business address
 - F – Accounting method
 - G – Material participation
 - H – Started or acquired business in current year

- **Part I – Income**
 - **Line 1 – Gross receipts or sales**
 - **Line 2 – Returns and allowances**
 - **Line 3 – Line 1 minus line 2**
 - **Line 4 – Cost of Goods Sold**
 - **Line 5 – GROSS PROFIT**
 - » **Line 3 minus line 4**
 - **Line 6 – Other income**
 - **Line 7 – GROSS INCOME**
 - » **Line 5 plus line 6**

- Part II – Expenses
 - Use the pre-printed lines on page 1 whenever possible. If your business has expenditures not listed here you should use the “other expenses” on page 2 of Schedule C
 - Ensure expenses are qualified deductions
 - Must be “Ordinary & Necessary” per IRC 162

DOCUMENTATION

- Totals and at-risk boxes
 - Line 28 = total expenses
 - Line 29 = tentative profit
 - Line 30 = O-I-H expenses from Form 8829
 - Line 31 = NET PROFIT/LOSS
 - Line 32
 - Check box a if all investment is at-risk
 - Check box b if some investment is not at risk.

Schedule C – Page 2

appendix page 2

- **Part III – Cost of Good Sold (COGS)**

- **Inventory**

- Check the appropriate box on line 33
- Answer Yes or No on line 34
- Report BOY inventory on lines 35
- Report EOY inventory on line 41
- Report expenses on appropriate lines (36 – 39)

- **No Inventory**

- Report expenses on appropriate lines (36 – 39)

Line 42 = Cost of Goods Sold and is transferred
to Schedule C, page 1, line 4

- **Part IV – Information on Your Vehicle**
 - Vehicle info is only reported here if the standard mileage deduction is used *and* the business is not required to file Form 4562 (depreciation).
 - Otherwise a description of the auto, date in service and mileage will be reported on page 2 of Form 4562 (see appendix page 5).
 - Answer Yes or No to checkbox questions each form asks.
 - Keep a mileage log and take odometer readings.

DOCUMENTATION

- **Part V – Other Expenses**
 - Report any categories of expense not provided for on page 1 of Schedule C.
 - Amortization is reported here.
- ...FYI... Charitable contributions made by a Schedule C business are reported on Schedule A unless there's a business purpose that would allow the deduction as a business expense for the Schedule C.

Form 8829

Expenses for Business Use of Your Home

appendix page 6

- **Ensure qualified use**
 - Exclusive use
 - Regular use
- **Calculate the deduction**
 - Part I calculates business use percentage
 - Part II adds up the expenses
 - Direct
 - Indirect
 - Part III calculates depreciation of the home
 - Part IV for carryover of operating expenses and depreciation

AUDIT WARNINGS

- **Hobby Business...** suspects
 - Less than 3 out of 5 years profit (2 out of 7 years for horse breeding, racing, showing, training)
 - Continual losses
 - Offsetting other income in return
 - Sports, recreation and personal pleasure related businesses
 - Businesses without books and records
- **COGS > Sales**
 - Be ready for a bank deposit analysis and cash T

- **Car & Truck Expenses**
 - Identify home and office to determine start/stop
 - Mileage log & odometer readings a must!
 - 3rd party odometer readings to prove total miles
 - Log + any supporting info to prove business miles
- **Travel**
 - Beware the IRS travel rules!! They're tricky!!
 - Ask who, what, where, when and why
 - Keep original hotel receipts

DOCUMENTATION

- **Meals & Entertainment**
 - Names, business relationship and business purpose needed to pass audit
 - Support with appointment book, calendar, etc
 - Per diem allowed for sole proprietors
 - 50% limit – 80% for DOT hours of service rule drivers
- **Round numbers**
 - BIG audit flag!!!
 - Round only to the next dollar or mile!!!!
- **Duplicated Expenses**
 - Careful not to duplicate Schedule C expenses on Form 2106

- **Proper Record Keeping**
 - **Why?**
 - Vital to business success
 - Facilitates budgeting and planning
 - Saves your behind in an audit
 - **How?**
 - Keep business and personal separate
 - Retain source documents
 - Record transactions as they occur
 - **What else?**
 - Write a business plan & review regularly

DOCUMENTATION

General Warnings

- Bank statement requests
 - The looking glass
- Audit expansion
 - Prior year and subsequent years opened frequently
- Sorting expenses
 - Section 179 assets in supplies
- Gentlemen farmers
 - Hobby Farm!
- 2010 SE Health Insurance deduction for SE tax
 - Report SE health insurance premiums paid on line 29 of Form 1040, as usual
 - Deduct this amount from SE earnings by entering the SE health insurance premiums again on line 3 of Schedule SE (see appendix page 7)