

Index

- Accounting methods:
 - accrual, 67, 72–76
 - cash accounting method, 69
 - C corporations, 70
 - choosing, 76–77
 - defined, 66–67
 - hybrid, 76
 - overview, 66–67
 - partnerships, 43–44
 - S corporations, 53
 - sole proprietorships, 35–36
- Accounting periods, 77–79
 - C corporations, 52
 - limited liability companies, 60–63
 - partnerships, 44
 - S corporations, 77–78
- Accrual accounting method:
 - costs, 74
 - economic performance, 74–75
 - expenses, 72, 74–75
 - income and, 73
- Accumulated earnings tax, 48–49
- Acquisition debt, Form 8829,
 - 151–152
- Administrative authority, IRS, 1–16
- Allocation of debt, partnerships, 43
- Allowable deductions, home office,
 - 134, 143
- Alternative minimum tax (AMT),
 - 203–205
- American Federal Tax Reporter*
(RIA), 9
- Appeal rights, audits, 10–15
- Appellate courts, 6–7
- Assets, records, 26
- Audits:
 - appeal rights, 10–14
 - costs, recovering, 14–15
 - examination, 10–11
 - personal interview, 11
 - small case procedure, 13–14
 - tax court, 12–13
- Blood business, Mrs. Green, 30–31
- Bookkeeping, 253–264
- Boot, shareholders, 51
- Business:
 - deductions, 201–238
 - definition for tax purposes, 19–33
 - hobbies, 23–26
 - investing as, 20–22
- Business checking account, 254
- Business gifts, deductions, 222
- Business liability insurance, 224–225
- Business organization, 35–66
- Business use test, 134–136

- Calendar year, taxable year, 52–53
- Capital improvements, 162–163
- Car expenses:
 - actual expenses, 185–187
 - deductions, 195
 - depreciation, 188–189
 - employee use, 155–156
 - leased cars, 191–195
 - mileage, 181–184
 - personal use, 187
 - rental, 191–192
 - reporting, 195–197
 - Section 179 limitation, 185–187
 - transportation, 178–181
 - travel away from home, 172
- Car rental, 191–195
- Cash accounting method, 69
 - deductions and, 70–71
 - income and, 70
 - one-year rule, 72
 - payments, 71
 - prepayments, 71–72
- Casualty losses, 150
- C corporation:
 - accounting methods, 52
 - basis in corporate stock, 51
 - boot, 51
 - cash accounting and, 69–71
 - contributions, 49–50
 - earnings, retaining for expansion, 48–49
 - employment taxes, 47–48
 - income reporting, 46–47
 - liabilities, 53–54
 - retirement plans, 53
 - stock gain/loss, 52
 - taxable year, 52–53
- Checking account, 54
- Club dues, deductions, 221–222
- Code sections, interpreting, 4–5
- Commuting, 179–181
- Computer software:
 - accounting system, 255
 - business deductions, 216–218
- Contributions:
 - C corporations, 45
 - partnerships, 39–45
- Corporate shareholders, self-employment tax, and, 53–54
- Corporations:
 - best choice, 63
 - C corporations, 45–54
 - contributions to, 49–51
 - employment taxes, 47–48
 - forming, 46
 - limited liability companies (LLC), 60–63
 - partnerships, 39–45
 - S corporations, 54–60
 - taxable income, 46–47
- Correspondence examination audit, 10–11
- Credit cards, business use, 254
- Cumulative Bulletin*, 3, 8–9
- Daycare:
 - example of home use, 122–123, 133, 145–147
 - square footages, 144–147
- Dealers, securities, 20–22
- Declining balance method, 203–204
- Deductions, 5
 - allowable, 171
 - amounts, 174–175
 - books, 218–219
 - business liability insurance, 224–225
 - computer software, 216–217
 - entertainment, 220–224
 - expenses, identifying, 27–29
 - health insurance, 225–226
 - hobbies, 23–26

- home limitations, 117–141
- home office, 20
- identifying, 27–31
- meals, 220–224
- medical savings accounts, 225–229
- ordinary and necessary, 27–29
- periodicals, 218–219
- personal property depreciation, 202–218
- retirement plans and, 230–234
- subscriptions, 218–219
- supplies, 218–219
- tickets, 222
- telephone services, 219
- travel expenses, 172–178
- wages, 229
- Defined benefit plan, 232
- Defined contribution plans, 231
- Depreciation:
 - appreciating, 206
 - basis for, 205–206
 - business portion of home, 159–162
 - computer software, 216–218
 - five-year property, 202, 207
 - listed property, 211–212
 - mid-quarter convention, 206–207
 - mileage expense and, 181–182
 - personal property, 202–218
 - Section 179 election, 208–216
 - seven-year property, 202–203
- Discriminant Function System (DIF), 10
- District courts, 6
- Earnings, retaining for expansion, corporations, 48–49
- Economic performance, accrual accounting and, 75–76
- 80 percent test, 50–51
- Employees:
 - Form 8829, 164–165
 - statutory, self-employment tax and, 97–99
 - wages, 47–48
- Employment taxes, 108–110
 - C corporations, 47–49
 - EIN (employer identification number), 107
 - unemployment, 108
 - withholding, 107
- Entertainment:
 - deductions, 220–224
 - substantiation, 221–224
- Estimated tax payments, 104–106
 - corporations, 104
 - payments, 105–106
 - penalties, 106
- Examination, audits, 10–11
- Exclusions, cost of sales, 5
- Expansions, 48–49
- Expenses:
 - accrual accounting, 72–74
 - car, 185–188
 - deductible, identifying, 27–31
 - direct/indirect, 150
 - hobbies, 23–26
 - home office, 120, 134
 - limitations on home use, 117–139
 - records, purging, 262–263
 - substantiating, 256–257, 261
 - transportation, 178–182
 - travel, 171–178
- Expenses for Business Use of Your Home, Form 8829, 143–166
- Family partnerships, 39–40
- Farmers, Form 8829 and, 149
- Federal estimated tax payments, 104–106

Federal Unemployment Tax (FUTA), 108
50 percent reduction for meals, 178, 223
Final determination, 12–13
Fiscal year, 52–53, 58
Form 1040, example business, 270–277
Form 4562, example business, 276
Form 4797, 245
Form 8829, 143–166, 243, 277
 acquisition debt, 151–152
 capital improvements, 154–155
 casualty losses, 150, 157–158
 deductions, 147–148
 depreciation of business portion of home, 159, 160–162
 employees, 149
 equity debt, 152
 example, 165–169
 example business, 265–267
 farmers, 149
 gross income allocation, 149
 insurance, 154
 mortgage interest, 151–153
 operating expenses, 156
 phone, 156
 real estate taxes, 152
 repairs and maintenance, 150, 154, 155
 sale of residence, 159, 243–244
 utilities, 155
 wages, 154

Gifts, substantiation, 258–259

Health insurance, 44, 216, 225–226
Hobby *vs.* business, 23–26
Home, tax home, 7, 19–20, 173
Home mortgage interest, Form 8829, 151

Home office:
 cleaning and repair, 120
 clients, 128–129, 132
 corporations and, expenses, 134, 135
 customers, 128–129, 132
 daycare services, 119, 122–123, 133–134, 145–147
 deductions, allowable, 20, 119, 135–136, 248–251
 definition of, 7, 118–119, 120–122
 depreciation, 160–162
 determination, 7, 118–119, 120–122
 example business, 129–131
 exclusive use, defined, 123–124
 expenses, 120, 134–135
 limitations on use, 117–139
 net income limitation, 119
 partnerships and, expenses, 134
 patients, 128–129, 132
 principal place of business, 125
 regular use of defined, 122
 rental issues, 138–139
 residence, 121
 restrictions on use, 136–139
 sale of residence and, 239–251
 second office, 129–132
 separate business issue, 127–128
 separate structures, 119, 132
 size, 144–145
 storage space, 132
 time used, 121
 unreimbursed expenses, 134–135
Hybrid accounting method, 76

Income:
 accrual accounting and, 73
 cash accounting and, 70–71
 net income limitations on home use, 119
 records, purging, 262–263

- Independent contractors, 36, 99
- Indirect expenses, Form 8829, 150
- Individual Retirement Arrangements (IRAs), 233–234
- Insurance:
 - business liability, 224–225
 - Form 8829, 154
- Interest, mortgage (Form 8829), 151–152
- Internal Revenue Bulletin*, 3, 8–9
- Internal Revenue Code:
 - letter rulings, 2, 3–4
 - regulations, 2
 - revenue rulings, 2, 3–4
- Internal Revenue Service (IRS):
 - administrative authority, 1–16
 - audits, 10–15
 - judicial authority, 5–9
 - legislative authority, 1–5
- Interpretive regulations, 2
- Inventory, cash accounting, and, 69
- Investing as business, 20–22
- IRAs, 233–234
- Job Creation and Worker Assistance Act of 2002, 234
- Judicial authority, 5–9
- Keogh plan (retirement), 53, 230
 - partnerships, 44
 - sole proprietorships, 38
- Leased cars, 191–195
- Legislative authority, 1–5
- Letter rulings, 3–4
- Lexis, 10
- Liabilities:
 - C corporations, 53–54
 - partnerships, 43, 45
 - S corporations, 60
 - sole proprietorship, 38–39
- Limitations on home use, 117–139
- Limited liability company (LLC), 35, 39, 60–63
 - advantages, 61
 - background, 60–61
 - drawbacks, 61–62
 - loss limitations, 63
 - self-employment tax, 62
 - limited partnerships, 45
 - listed property, 210–211, 260
 - litigating, 13–14
- Loss limitations, LLCs, 63
- Malpractice, 39
- Manual bookkeeping system, 264
- Meals, 220
- Mid-quarter convention, 206–207
- Mileage, 181–182
 - actual cost method, 184–191
 - depreciation, 188–191
 - leased cars, 191–195
 - personal use of car, 187
 - ministers, self-employment tax and, 100
 - nonrecourse debt, partnerships, 43
- New York Liberty Zone, 205
- 90-day, letter, audits, 12
- Numbering system, regulations, 2–3
- Online resources, 9–10
- Ordained ministers, 100
- Ordinary expenses, 27–28
- Partnership agreement, 40–41
- Partnerships:
 - accounting methods, 43–44
 - accounting periods, 44

- Partnerships (*continued*)
 - accounting year, 77–78
 - allocation of debt, 43
 - basis in partnership interest, 41–43
 - contributions, 41
 - debt, 43
 - deductions, reporting, 40, 41
 - expenses, home office, 120, 134–136
 - family partnerships, 39–40
 - general tax treatment, 40
 - health insurance, 44
 - income, reporting, 41
 - liabilities, 43, 45
 - limited, 45
 - LLC (limited liability company), 39, 45
 - LLP (limited liability partnership), 39, 45
 - retirement plans, 44
 - self-employment tax, 41
- Passive activity loss (PAL), 63
- Penalties, estimated tax payments and, 49
- Per diem allowances, 174–175
- Personal interview examination audit, 11
- Personal property depreciation, 202
 - amount, 203–204
 - appreciation, 206
 - basis, 205–206
 - categories, 202–203
 - investment use, 214
 - listed property, 211–212
 - mid-quarter convention, 206–207
 - records, 215
 - reporting, 215–216
 - Section 179 election, 208–211
 - use by employees, 214–215
- Personal service corporation (PSC), 52–53, 70, 77–78
- Phone bill, Form 8829, 156, 219
- Power of attorney, 11
- Principal place of business, 7, 125–128
- Private letter rulings, 2, 3–4
- Profit motive, hobbies and, 23–26
- Real estate:
 - rents, 19–20, 22–23
- Recordkeeping, 253–263
 - adequate records, 260–261
 - assets, 263
 - car, 259
 - entertainment, 258
 - gift, 258–259
 - income and expenses, 263
 - purging items, 262–263
 - substantiation requirements, 256–257, 262
- Recourse debt, partnerships, 43
- Regulations, treasury, 2
- Rent payments, Form 8829, 156
- Rents, 19–20, 22–23
- Residence, definition, 159
- Residence, selling, 239–251
 - reporting on, 240–248
 - Taxpayer Relief Act of 1997, 239–240
- Restrictions on home use, 138–139
- Retirement plans, 59–60, 230, 233–234
- Revenue procedures, 4–5
- Revenue rulings, 2–3
- Roth IRAs, 234
- Rulings:
 - letter rulings, 2, 3–4
 - revenue rulings, 2–3

- Sale of your residence, 239–251
 - reporting, 240–248
 - Taxpayer Relief Act of 1997, 239–240
- SARSEP, 231
- Schedule A, example business, 20, 37, 164, 272
- Schedule C:
 - example business, 273
 - Form 8829 and, 163
 - sole proprietorships, 37
- Schedule D, 20
- Schedule F, Form 8829, 36, 163
- Schedule SE, 246
- S corporations:
 - accounting methods, 58
 - accounting periods, 69–70
 - basis in stock and debt, 56–57
 - corporate taxes, 57
 - electing, 55–56
 - employment taxes, 58
 - income reporting, 57–58
 - retirement plans, 59–68
 - taxable year, 58
 - tax treatment, 56
- Section 179 election, depreciation, 152, 208–211
- Section 444, accounting year and, 44
- Securities, 20–22
- Self-employment tax, 97–104
 - computing, 98–99
 - partnerships, 39–45
- SEP (simplified employee pension) plans, 230–231
- Separate structures, 119, 132
- SIMPLE (Savings Incentive Match Plan), 38, 44, 53, 230, 232–233
- Skyboxes, deductions, 222
- Small case procedure, audits, 13
- Sole proprietorships, 35–39
 - accounting methods, 37
 - health insurance, 38
 - liabilities, 38–39
 - retirement plans, 38
 - self-employment taxes, 36
 - tax treatment, 36
 - who is one, 36–37
- Soliman, home office deduction and, 125–127
- Standard Federal Tax Reporter*, 9
- Standard mileage rate, 181–184
- Statutory employees, self-employment tax and, 99–100
- Stocks, 52
- Storage space, 119, 132–133
- Supplies, 218–219
- Taxable income, reporting, C corporations, 46–47
- Taxable year, 37–38
- Tax authority, 1–16
- Tax Court, audit appeals, 12–13
- Taxes:
 - employment taxes, 108–109
 - federal estimated tax payments, 104–106
 - self-employment, 97–104
 - state and local, 97
- Tax home:
 - temporary work assignments, 173
 - traveling purposes, 172
- Tax Reform Act of 1986, 55, 78
- Tax regulations, 2
- Tax services, 9
- Tax shelters, 69
- Tax and Trade Relief Extension Act of 1998, 225
- Telephone services, deductions, 219
- Temporary work assignments, 173
- 30-day letter, audits, 11–12

- 30 percent allowance:
 - qualified property, 204–205
 - qualified vehicles, 188
- Tickets, deduction, 222
- Trade Relief Extension Act, 225
- Transportation expenses, 178–182
 - reporting, 195–198
- Travel expenses, 172–178
 - deductions, 174
 - per diem allowances, 174–175
 - pleasure travel, 173–174
 - reporting, 172, 195–199, 257–258
 - temporary work assignments, 173
- Treasury regulations, 2
- Trial courts, 6–7
- Underpayment penalty, 104
- United States Court of Appeals, 6
- United States Court of Federal Claims, 6
- United States Tax Cases (CCH), 9
- United States Tax Court, 6, 13
- United States Tax Reporter*, 9
- Westlaw, 10
- Withholding, employment taxes and, 107
- Writ of Certiorari, 7
- Zaninovich, 72