

# Chapter 8

## Taxes

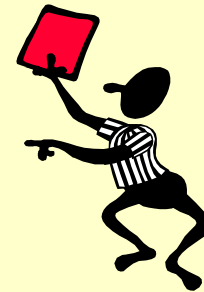
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**<http://www.nr.cc.va/fin107>**

# How can I get help with my taxes?

- Tax Attorneys
- Accountant (but not a CPA)
- Computer software programs
- Commercial Agent
- Enrolled Agent
- Certified Public Accountant

# Who is responsible for the accuracy of my tax return?

You are responsible for  
the accuracy of your  
tax return



# What are some reasons for higher taxes?

- Income tax brackets are higher
- Deductions are more limited
- Exemptions are worth less than in earlier years

# What is a progressive income tax system?

A tax that levies a lower tax rate on low income people than on high income people

# Give me an example of a progressive income tax

- Each dollar earned below \$6,000 is tax free
- Between \$6,001 and \$22,000 is taxed at 15%
- Between \$22,001 and \$53,000 at 28%

**Is a tax return of  
\$1,200 a good thing?**

There are better ways to  
automatically save



# How can I save automatically?

Your bank can take money out of your checking account and put it into your saving account



**Why is automatic saving  
better than getting a big  
tax return?**



You have more control  
and earn interest

# How do I control my payroll deduction?

By changing the number of exemptions on your W-4

# What if I want more money taken out?

Decrease the number of  
exemptions on your W-4



**What do I do if I want  
less money taken out?**  
Increase the number of  
exemptions on your W-4

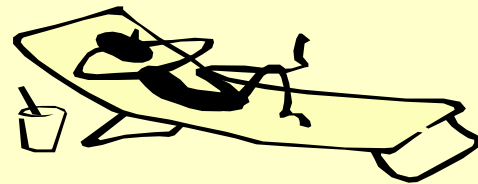


# **When do I claim the correct number of exemptions?**

When you file your taxes

**I can't meet the April 15th  
deadline, what can I do?**

Get an extension until  
August 15th with  
form 4668



# **What if I file for an extension and end up owing taxes?**

You will have to pay interest on the money you owe going back to April 15th

**If I file late and owe taxes is there a penalty?**

There are no penalty charges if you file form 4668



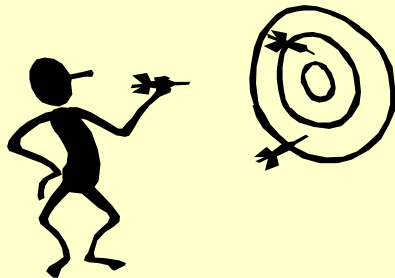
# What is an exemption?

Each exemption is a subtraction from your taxable income



# What is a deduction?

Each deduction is a subtraction from your taxable income



# What is a standard deduction?

If your total deductions do not add up to the standard deduction, use the standard deduction

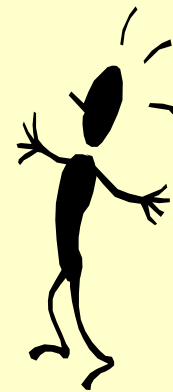
# What form do I use with standard deduction?

The short EZ Form



# What if my deductions add up to more than the standard deduction?

You must file the long form and itemize your deductions



# What is the largest tax deduction for most people?



The interest paid on a mortgage and/or a home equity loan

# Is money to my church a tax deduction?

Only if you file the Long Form



# What can I do to save money on my taxes?

You can claim a loss on **Schedule C** as the owner of a small business



# Can I claim a loss on Schedule C even if I file the short form?

**Yes!**

On Form 1040 there is a place to take away a loss from a business



**For how many years  
can I claim a loss  
from a business?**

Any 2 of 5 years, 3 of 5  
years if you make a  
request in writing

**If the IRS challenges  
my sideline business,  
what can I do?**

**File IRS Form 5213,  
*Election to Postpone  
Determination That  
Activity is for Profit***

# What does filing Form 5213 do for me?

It delays the business status until after you have been in business for five years

# Give me some examples of tax deductions for a photography business?

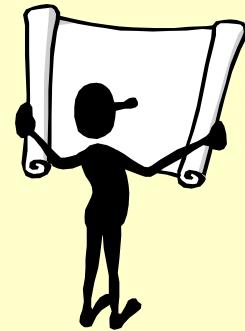
- cameras
- film
- dark room
- chemicals
- postage
- publications
- lamination
- bank charges
- copying
- some travel

**When is a good  
time to save money  
on my taxes?**

You have to put a plan  
into operation this year

# Must I keep careful records?

It is critical that you keep  
careful records and  
receipts whenever  
possible



# Do I need a license to go into my own business?

Usually you simply need to give your business a name and fill out a Schedule C





# What kind of business do I have when I fill out Schedule C?

A sole proprietorship

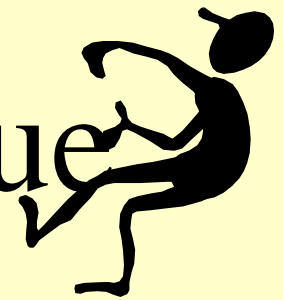


# What other types of business organizations can I have?

- Chapter S Corporation
- Limited Liability Corporation

# When should I form a corporation?

When liability is an issue



# Why am I protected with a corporation?

By forming a corporation, your business becomes a legal person with its own identity

# **Is there a difference between Chapter S & Limited Liability?**

Limited Liability

Corporation is simpler  
and better suited for  
some businesses

# What is the Earned Income Credit (EIC)?

A federal tax credit for working families, with or without children, who earn less than a certain amount per year

# How can I file for EIC?

You must file the EIC schedule along with your tax return



# What determines my EIC benefit?

Your income  
and family size



# How do I receive EIC?

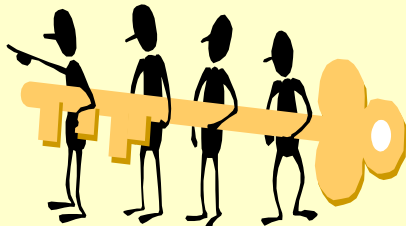
- As a reduction in the amount of income tax you must pay at the end of the year
- As a monthly additions to your paycheck
- As an addition to your income tax refund from the IRS

# What constitutes income for EIC?

- salary
- wages
- self-employment
- military pay
- 401(K)-type contributions by employer
- disability benefits
- Cafeteria-plan contributions by your employer

# Do single people qualify for EIC?

YES, if they meet the  
guidelines outlined above



# I already get benefits do I qualify for EIC?

**Yes!**



Your other benefits  
will not affect your  
eligibility for EIC

# Am I eligible if I do not file a tax return?

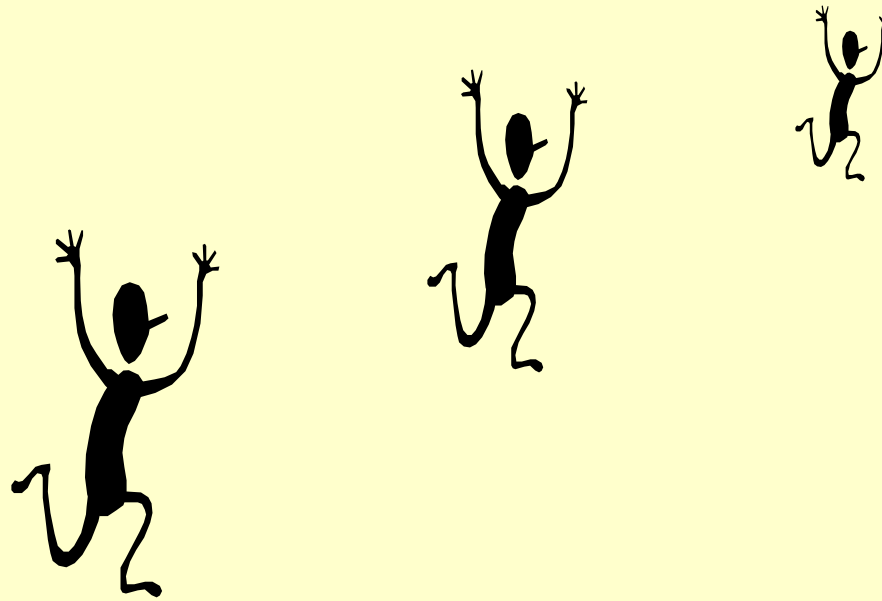
Yes!



But only if you file a 1040 or 1040A return and a Schedule EIC

# What if I have no children?

Use the 1040EZ Form



# Can I still get benefits from past years?

You can apply for EIC for each or all of the last three years you qualified by filing an amended tax return

# How do I get a EIC Form?

- Call the IRS
- Public library
- Post office



# What is a tax audit?

A tax audit occurs when the government calls you in to verify your tax return



# What are the 3 methods the IRS selects audits?

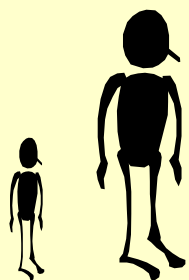
- DIF Score Method
- Adjustment Section of the computer center
- Special Projects Method

# What is the DIF method?

Every personal income tax return is given a DIF score when it is processed through the IRS computer

# What does a high DIR score mean?

The higher the score

 the greater the  
chance of an audit

# What is the adjustment section method?

If you make a mistake in addition or completion of your tax form and auditors can't figure it out, you may be audited

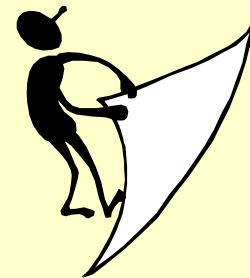
# **What is the special projects method?**

If the IRS suspects that there is a abuse in a specialized area, all the tax returns in that area will be audited

**If I am called in for an audit, will I know why?**

The IRS must tell you why the audit and give specifics

**Consider the following if  
you are audited**





- Don't offer any information not asked for
- Make sure you have copies of all papers
- Never complain and be polite
- The auditor has the right to look at your documents only once

# If I have a problem with the IRS, what can I do?

Contact the Problem

Resolutions Office of the  
IRS at (800) 829-1040



**What happens if the amount in dispute is more than \$10,000?**

You may need the help of a tax lawyer as the process is more complicated

**END**