Learn to REDUCE TAXES

by Don Blackwell
ABOUT THE AUTHOR

Donald Blackwell is President and Co-founder of ICON OF SUCCESS. He is a national motivator, speaker and financial coach. His background and expertise range from Real Estate Investing and Mortgage Consulting, to Life and Health Insurance and Business Consulting. He is a successful entrepreneur and enjoys tutoring others in the art of building Assets and Accelerating their Investments.

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INTRODUCTION

Taxes is one of the most frightening areas in the financial arena. Year after year you see displayed in the news (usually December -April) companies and individuals that have evaded their taxes and the IRS has finally caught up with them. The IRS will dangle these big names in the news much like a fisherman dangles a prize catch for the camera; to capture the moment for all to see. We see these companies owing multi-millions in back taxes. In the end, these images help us maintain a healthy fear/respect for the IRS, and we avow to forever pay our “fair share” so we don’t get into trouble. What the heck…we will even pay extra taxes just to make sure that we don’t owe at the end of the year! This is the lament of the typical employee in our American society.

With that being said, there is a completely different battle cry from the opposite side of the fence…the financially educated business owners. These business owners vowed to earn all of the income their businesses could possibly earn, and then produce legal tax deductions to show that they owe as close to nothing as they possible can each year. The best of these business owners owe $0 and even negative tax dollars (meaning that the IRS owes them) each year as they apply all of the deductions available to them.

In 2004 an article published on the Citizens for Tax Justice (www.ctj.org) and Institute of Taxation and Economic Policy (www.itepnet.org) websites listed 82 big U.S. corporations that paid zero or less taxes from the years 2001-2003.* Companies such as Prudential Financial, Time Warner, Boeing, AT&T, Wachovia, Walt Disney, and Toys “R” Us all showed negative tax liability for those years. And they were not alone, of the 82 companies listed, 79 had a negative tax liability after many earned billions in profit. The question is, what are these business owners doing differently from the employees listed above? Why is one group paralyzed with fear regarding taxes, while the other makes millions/billions in income and pays zero or less in taxes?!?

*Source – Article: "Bush Policies Drive Surge in Corporate Tax Freeloading 82 Big U.S. Corporations Paid No Tax in One or More Bush Years“ – Article: Citizens for Tax Justice (www.ctj.org)
The difference is in the knowledge that the two groups applied. Did you know that if you are a business owner the government actually “trusts” you? Conversely, if you are an employee the government does NOT “trust” you.

As a business owner the government allows you to get all of your money up front, and then you file at the end of the year to determine how much (if any) you owe. If you owe back in taxes; the government trusts you to have the money first.

The employee is treated exactly the opposite. The employee receives a paycheck and they see two numbers; gross and net. Gross is the amount of your paycheck prior to anyone putting their hands in it. Net is the actual money you receive after Uncle Sam and a few other friends have visited your paycheck prior to you receiving your money. As an employee, Uncle Sam got the tax money first, and you filed at the end of the year to see how much (if any) you could get back. All trust of the employee is gone.

One of the strangest phenomena is to ask an employee how they did with their taxes last year, and you get the following reply, “I did GREAT…I didn’t have to pay anything!” The employee did not notice that taxes took $2000 - $15000 (or higher) from his paycheck throughout the year; he only noticed that he “broke even” at the end of the year…he didn’t have to pay anything back. Did the employee truly “break even”, or did he actually lose $2000 - $15000 (or higher) due to taxes? It’s is equivalent of losing a football game with a score of 15000 to zero, and shouting at the end of the game, “I won!”

Fortunately, the knowledge to reverse this process can be learned. In fact, the purpose of this book is to teach you the nuances of the tax system so you can learn how to navigate the system to make it work positively for you. Hopefully, if you are reading this book, you have already read Step 1 of the 5-Step Financial System which teaches the necessity of establishing a business and the need for Business Income.
To apply the strategies covered in this book it is required that a business be established as it only applies to business owners!

In the upcoming chapters we will review the common myths of the tax system, introduce the multitude of deductions available to the home-based and small business owner, and focus on the 7 top business deductions that apply to most business owners, discuss the tax forms, and conclude with the strategies for properly documenting your activities to make you audit proof.

As a final note, let me state that Uncle Sam often gets the “black eye” because of his perceived intentions. The tax laws were written to favor businesses because they have the potential to grow to create employees, and those employees work to produce products and service that other people need and/or desire. Corporations pay taxes, employees pay taxes, consumers pay taxes, and businesses spawn other businesses to repeat the cycle.

To set the record straight, Uncle Sam is one of the best “Rich Uncles” you could ever ask for…you just have to learn how to communicate with him so you understand each other. Just like a marriage, if there is no communication the relationship will nose dive quickly. Taxes is the same! Once you communicate properly, Uncle Sam will become the best “silent business partner” you could ever ask for. Consider this book relationship counseling for you and Uncle Sam, with the ultimate goal of maintaining a happy “marriage” that will serve you positively for many years to come.

For a more personal, video accounting of the tax benefits, please visit our Tax Webinars at www.iconofsuccess.com.

Happy Learning!
For many years the primary compliance tactic for the IRS has been the proper application of fear. From overly complicated forms and processes, to aggressive enforcement and star-studded media campaigns, the overwhelming perception has been fear of the entire process. From this fear has arisen (unintentionally and intentionally) many myths that have floated in the air for so many years that they are automatically accepted as truth. These myths are further bolstered by many tax “experts” that support the myths out of ignorance and/or laziness to push the client through as fast as they can. The following list of the myths has been compiled for your viewing and educational pleasure.

Myth #1 – The bigger my tax-return check the more I have to pay my tax preparer.

Reality: Everyone works like they get paid…on your job you will only do the things that get you paid. Your tax preparer is exactly the same. The question is, “How does your tax preparer get paid?” Your tax preparer does not get paid by how much money they get you back at the end of the year. Your tax preparer gets paid by the number of peoples’ tax forms they can fill out during the 4-5 months that make up the tax season. Because of this, the tax preparer is often reluctant to take on a client that has an intricate tax return during peak tax season; this slows the tax preparer down and they cannot complete as many clients’ tax returns (forms.) This mentality extends so far that the tax preparer will often lie to a client to dissuade them from including a complicated tax return during peak season.

As a side note to this issue, there are 3 words that your tax preparer will seldom utter…“I don’t know.” They will tell you that, “You can’t do that”, or “If you do that it will throw up a red flag!”, but they won’t say, “I don’t know.” Only after you show proof with actual publications
will they concede to “check it out and get back with you.” Therefore, it is incumbent upon you to take personal responsibility for your affairs. See Myth #3 below.

Myth #2 – I’m going to take my taxes to a CPA (Certified Public Accountant) to have them professionally done.

Reality: Most CPA’s have nothing to do with taxes. A CPA is simply an accountant that has passed the examinations to be certified by the state. Their primary responsibility is accounting and auditing, but a small percentage will complete tax returns for individuals and corporations if they studied the specialized subject. For tax return purposes you would be better suited with a Certified Tax Preparer (CTP) or a Certified Tax Specialist (CTS), and preferably one with a specialty in home-based businesses if that is your business structure.

Myth #3 – My “tax guy” takes care of my taxes.

Reality: This is one of the worst responses that a person can give; it clearly shows that they have no idea what is happening with their taxes. That statement is on an equal scale with, “My dentist takes care of my teeth”, or “My doctor takes care of my health.” Neither your doctor, your dentist, nor your “tax guy” is responsible for taking care of you. You are responsible for taking care of yourself! The more knowledgeable you are about your personal circumstance, the better you can facilitate the professionals with providing for your overall care. Don’t be an “ostrich” with your taxes.

Myth #4 – If I use a CPA I am no longer responsible for a tax error.

Reality: Only YOU are responsible for filing, preparing, and submitting your income and expenses to the IRS. You may hire a professional to assist you with the process, but ultimately you are the party that the IRS holds accountable.

Myth #5 – I can go to jail if I make a mistake on my taxes.

Reality: This is absolutely NOT TRUE! The IRS will take extreme measures to allow you to correct a mistake. Even if a person commits tax fraud, such as not reporting large sums of
income over a long period of time, the IRS will allow them to correct it. Only if the person refuses to correct it will the person be subject to fines, penalties and/or prosecution.

As a side issue, **who is the one person that should not show up for your tax audit? YOU!** You should be the one person that should not be present. It is best that you shoulder the expense of a **tax attorney** to represent you in the event of an audit. This will help you bypass the intentional “bullying” that comes with the process, and provide you the best possible experience for your cause. Peace of mind is truly worth a few hundred dollars.

**Myth #6 – You cannot claim these business deductions if your business did not show a profit in 2 out of the last 5 years.**

**Reality:** This wisdom has been spouted by tax professionals, the general public, and even the IRS agents for as long as anyone can remember. And if everyone is saying it, there must be some truth to it…right? WRONG! You can claim your business tax deductions **indefinitely** as long as you do one simple thing…**attempt to produce a profit with your business**. As long as you legitimately **attempt** to produce a profit, you can potentially claim deductions (take business losses) year after year. So much for what everybody says…

Hopefully this will dispel many of the myths and fictions of your participation in the tax system. As we move forward we will look at the multiple tax deductions available to the home-based and small business owner, and we will begin an understanding of how to apply a core segment of these tax deductions to your businesses.
It is really true that the business owner has more tax deductions than the employee? **ABSOLUTELY!!** The tax system was written with 2 tax codes; one for the employee (W2) and one for the person that owns a business (1099.) The division is as follows:

<table>
<thead>
<tr>
<th>W2 (House)</th>
<th>1099 (Business)</th>
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<tbody>
<tr>
<td>7</td>
<td>422*</td>
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The employee, purchasing a home to get the “good” tax deductions, only has 7 major tax deductions…even after they itemize. The business owner, on the other hand, has 422 tax deductions. Why is there such a big disparity between the two groups? To find the answer we must re-visit a simple piece of age-old wisdom:

“People work like they get paid”

- **Question:** Who writes the laws for the IRS?
  - **Answer:** Congress.

- **Question:** Who is Congress comprised of?
  - **Answer:** A bunch of men and women that just happen to on Businesses.

So if the previous statement is true (People work like they get paid), then you should see a decided “slant” in favor of the business owner when it comes to Congress writing the tax laws. The tally is 422 to 7! That’s not just a “slant”…that is 180 degree bend!

* “422 Tax Deductions for Businesses & Self-Employed Individuals” Bernard Kamoroff
Before you begin to judge the members of Congress too harshly, just remember that they are falling well within the parameters of acceptable human nature. If you were a member of Congress and you owned a business, would you vote in favor of a Bill that would cripple your business industry (and your specific business) tax wise? At the very least you have to give very serious consideration to your decisions, and so do the members of Congress.

**Myth: The government won’t allow these “tax loopholes” for long before they pass new laws to stop it.**

**Reality:** The 422 tax deductions available to the business owners are not “loopholes”; they are legitimate tax deductions that are granted to business owners by the Congress. As long as Congress is comprised of people that own businesses, human nature will prevail and the “slant” will continue. As long as businesses are tied to the economic stability of our country, the “slant” will continue. Periodically token gestures of reform are offered, but they are almost always short lived due to the “sensitivity” of the subject.

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**Deductions – Deductions – Deductions**

**Business expenses** are the costs that are incurred to run your business. These expenses are most often deductible as long as they meet two IRS provisions: They must be *ordinary* and *necessary* for the conduct of your particular business, and they must be used in the legitimate attempt to *make a profit* for your business. As many people have home-based businesses, there also has to be a consideration of the *personal use* of many of your business expenses. Things such as cars, communications, your home, etc. all have personal as well as business use, and the personal use has to be divided out.

Within business expenses, the IRS divides deductions into 3 *categories*:

- **Indirect Expenses**
- **Direct Expenses**
- **Business Assets**
**Indirect Expenses** refer to the expenses that are indirectly related to the conduct of your business. Rent, utilities, etc., are examples of indirect expenses. Indirect expenses are tied to the **business use percentage** of your home, and can only be taken if your business shows a “profit” on its tax return.

**Direct Expenses** refers to necessities directly related to the proper functioning of your business. This includes magazine and media subscriptions, telephones, employee benefits, supplies, professional dues and memberships, etc. As these are directly related to your business, they are 100% deductible.

**Business Assets** refer to the **equipment** (computers, copiers, scanners, faxes, etc.) and **business furniture** (desks, chairs, file cabinets, etc.) Business assets are also 100% deductible.

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**So what are some of the many deductions that can be taken as a Business Owner?**

<table>
<thead>
<tr>
<th>Accountants</th>
<th>Advertising</th>
<th>Alarms</th>
<th>Amortization</th>
<th>Associations</th>
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<tbody>
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<td>ATM Fees</td>
<td>Audits</td>
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<td>Boats</td>
<td>Bonus</td>
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<td>Books</td>
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<tr>
<td>Brokers Fees</td>
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<td>Business Assets</td>
<td>Businesses</td>
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<td>Cartons</td>
<td>Chauffeur</td>
<td>Child Care</td>
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<td>Coffee Service</td>
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<td>Cleaning Serv.</td>
<td>Closing Costs</td>
<td>Clothing</td>
<td>Clubs</td>
<td>Computers</td>
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<td>Commuting</td>
<td>Compensation</td>
<td>Commissions</td>
<td>Conferences</td>
<td>Conventions</td>
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<tr>
<td>Credit Cards</td>
<td>Delivery</td>
<td>Depreciation</td>
<td>Donations</td>
<td>Dues</td>
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<tr>
<td>Education</td>
<td>Electricity</td>
<td>Entertainment</td>
<td>Employees</td>
<td>Equipment</td>
</tr>
<tr>
<td>First Aid</td>
<td>Fixed Assets</td>
<td>Flowers</td>
<td>Food</td>
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<td>Garbage Serv.</td>
<td>Gifts</td>
<td>Greeting Card</td>
<td>Grooming</td>
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<tr>
<td>Heating</td>
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<td>Health Insurance</td>
<td>Home Office</td>
<td>Holiday Cards</td>
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<tr>
<td>Improvements</td>
<td>Incorporation</td>
<td>Internet Access</td>
<td>Insurance</td>
<td>Interest</td>
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<td>Laundry</td>
<td>Lawyers</td>
<td>Legal Fees</td>
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<td>Magazines</td>
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<td>Meals</td>
<td>Meeting</td>
<td>Mileage</td>
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<tr>
<td>Newspapers</td>
<td>Office Equipm.</td>
<td>Office Supplies</td>
<td>Parking</td>
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<td>Rent</td>
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As is obvious, there are multiples of deductions (422) that are available to the business owner that are not accessible to the employee. Unless you own a major corporation such as Wal-Mart, you will never come close to using all of these deductions. Much like any football team, you will develop 2-3 plays that you learn to master. Your opponents all know your plays, they are anticipating you running those plays, and they believe that their team can develop a defense to stop those plays as you run them. With your taxes you will also master simple plays, with your company poised on one side of the field and the IRS staged on the other. The question is…what plays will your team run?

The Solid Seven

The arsenal for most home-based and small business owners will have many components, but at their core will be 7 Deductions that cover 70-95% of all participants. Once the details of these deductions are understood and applied, the remaining peripheral deductions will follow in the same manner.

For absolute clarity, visit www.irs.gov for detailed explanations of all Business Tax Deductions

1) Automobile Expenses

IRS Publication 463

For most people the automobile will become their single largest deduction. You are allowed to deduct the business use of your vehicle, and you have 2 choices of how to document the expense: Mileage or Actual Car Expenses (Depreciation.) When deciding which method to use, it is recommended that you calculate both methods your first year to see which yields the greatest for you. In addition, note that if you determine Mileage as a deduction method you have to maintain that deduction method for the life of the vehicle. When you choose Actual Car Expenses, you
have to maintain that method of deduction until the vehicle is 5 years old, after which the car is considered fully depreciated and you can switch to mileage if you desire.

**Mileage:** For 2009 you are allotted 58.5 cents for every business-related mile. Included within the mileage allotment is the anticipated gas and maintenance costs. There are many individual restrictions for mileage, so read the publication carefully as they are explained in detail. To highlight a few, note that you can never deduct the mileage from your home to your job. Also, you typically cannot deduct the mileage from your home to your first business-related stop, unless, your office is in your home. However, you can deduct the mileage from one business location to another, even if the second business location is outside of your tax home. If utilized properly, the typical mileage deduction could grow from $5000 - $15000.

**Hint:** In documenting mileage, it is not required that you document the full year. You are only required to document 3 consecutive months, and you can use this as the basis for the year.

**Actual Car Expenses (Depreciation):** This includes depreciation (decline in value of the car spread over 5 years), licenses, gas, oil, tolls, lease payments, insurance, garage rent, parking fees, registration fees, repairs, and tires. If you have a newer or high-valued car, this method may be best. As stated previously, initially run both methods of documentation to determine the best for your circumstances.

**2) Travel Expenses**

**IRS Publication 334**

According to the IRS, these are the ordinary and necessary expenses for traveling away from your tax home while on business. There are two qualifications for this deduction:

A. You are required to be away from your tax home substantially longer than a day.

B. You require sleep or rest to complete your duties.
When these 2 qualifications are met, you are allowed to deduct a multitude of expenses including:

- **Transportation.** The costs of plane, train, bus, or car from your home to your business destination and back.
- **Taxi, commuter bus, and limousine.** This includes the fares from the airport to hotel and from your hotel to business destinations while on your business trip.
- **Baggage and shipping.** This is the costs of shipping your baggage, supplies and training materials from your home to your business destination.
- **Car and truck.** If you drive your personal vehicle on your business trip, you can deduct the mileage or the actual costs (whichever method you chose for the vehicle.) If you rent a vehicle on the business trip you can deduct all but the personal use portion.
- **Meals and lodging.** Both of these are deductible on your business trip. Note that the meals deductible up to 50%.
- **Cleaning.** This is the cost of dry cleaning while on your business trip. It also includes the first dry cleaning upon your return from the trip.
- **Telephone.** The cost of business calls from your business trip is tax deductible. This also includes faxes and other communication devices including internet.
- **Tips.** All business-related gratuities are tax deductible.
- **Entertainment expenses.** This is business-related entertainment with clients, customers, or employees. It is deductible up to 50%.
- **Reimbursing employees.** If you have a business with employees, the business-related expenses incurred by these employees while on a business trip are tax deductible.

### 3) Meals and Entertainment

**Publication 463**

**Business meals and entertainment are tax deductible up to 50%.**

- **Meals** include the cost of food, beverages, taxes, and tip that you pay for a customer or client in the conduct of your business. In order for you to take this deduction, you or your employee must be present while the meal is being provided.

* IRS Publication 463 Travel, Entertainment, Gift, and Car Expenses.*
Entertainment is a widely varied topic in the eyes of the IRS. It “includes any activity designed to provide entertainment, amusement, or recreation. Examples include entertaining guests at nightclubs; social, athletic, and sporting clubs; at theaters; at sporting events; on yachts; or on hunting, fishing, vacation, and similar trips.”

Meals and Entertainment can also be directly related (occurred as the business activity occurred) or associated (occurred 24 hours before or after the business event that brought everyone together.)

4) Interest
Publication 463
As a business owner you can deduct the interest that represents the business use of your car. As an example, if you use your car 70% for business, you can deduct 70% of the interest on the vehicle. But, you can not deduct the remaining 30% that represents your personal use. This concept further extends to all loans acquired for business purposes.

5) Communications
Publication 535
As the self-employed or small business owner, this will primarily apply to your telephones. As a rule, you cannot deduct the cost of your first phone line in your home with no extra amenities attached (call waiting, 3-way calling, etc). But you can deduct the amenities, business long distance and a second phone line used exclusively for business. This also extends to the business-related cell phones and calls, but you must divide out the personal use portions.

6) Wages
Publication 535
Publication 15
Publications 535 and 15 denote that you can deduct the monies that you pay your employees, and that the employees can be your children (or parent or spouse for that matter.) As pertains to your children, the general rule for hiring has been that between the ages 7-17, you can pay them for
the work they do around your house to support your for home business. Children can dust, mop, clean, vacuum, or any other tasks necessary to maintain the readiness of your home for business. As a strategy you can pay the children up to $5700 (the standard deduction for 2009) per year per child for their services performed. These monies are totally tax deductible to your business as they are an expense to your business. Your child (children) does not have to pay taxes on the money because the standard deduction is granted to all employees and no one has to pay taxes on the first $5700. To apply these deductions your business must have 4 things:

- A Tax ID number (EIN)
- A custodial bank account for you and the child
- An employment contract for the child
- A 1099 or W-2 at the end of the year

This is what is lovingly defined as “putting your children to work with purpose.”

7) Depreciation

Publication 334

If you acquire property in your business that is expected to last more that one year, you generally cannot deduct the full amount of the property the first year…you must spread the cost over more than the immediate tax year. This method is called depreciation. Things such as computers, office equipment, vehicles, etc. all have to be depreciated.

The proper application of the “Solid Seven” tax deductions will provide a concrete foundation of knowledge and deductions for the serious business owner. The same applications apply to the remainder of the 422 tax deductions, and with careful study you will have more deductions than you ever imagined. Other materials I recommend for your study and enjoyment are:
“422 Tax Deductions for Businesses & Self-Employed Individuals”
Bernard Kamoroff

“Home Business Tax Savings”
Ronald Mueller

“Tax Strategies For Business Professionals”
Sandy Botkin
CHAPTER 3

Forms...Forms...Forms!

Most people literally “go blind” when they think of the prospect of actually looking at a tax form. When it comes to taxes for your home-based or small business, there are only 3 principal forms that require your understanding. Once you learn the language of Uncle Sam, you will learn that these 3 forms are easy to understand and they tie together to create a power punch for anyone that runs them in unison. Copies of the 3 forms are located in the Tax Manual Section of the iCON of Success Members’ Lounge. Please retrieve the sample copies as they are required for completing this section.

**Form 1: Schedule C – Profit or Loss from Business**

The uniqueness of this form begins with its name…Profit or Loss From Business. You use this form if your business has a Profit, and you use this form if your business has a Loss! (So much for the people and professionals that say that you cannot claim these deductions if your business does not make a profit.) All home-based and small business owners must file a Schedule C to document their income or loss.

The first section of the Schedule C simply allows you to tell the IRS who you are. Your personal name and social security number, or your business name and your EIN (Employer ID Number), your address, etc.
Part I – Income

This section is designed for you to state how much income your business made. For our sample company the business made $5000 that started on Line 1 and carried down to Line 7.

Part II - Expenses

This section is designed to encompass almost all of the 422 tax deductions. It goes from line 8 – Line 27, and your tax preparer will lump most of your business deductions together in categories to be fit into this section. Anything that does not fit within this section can be written on back of the form on Line 48. If you are viewing our sample form you will see that the “Solid Seven” tax deductions have already been included to total $27,000 in expenses on Line 28.

Question:  How can my Expenses be more than my Income?

Answer:  Because many of the expenses were in areas of your life that you have always spent money in, but when you started your home-based or small business, a significant portion of this routine spending became tax deductible.

With the total expenses at $27000 and the income totaling $5000, the IRS next wants to determine your tentative profit (or loss.) Line 29 directs you to determine this by subtracting line 28 ($27000) from Line 7 ($5000), which gives you a ($-22000) loss on paper. You are directed to carry this number over to your Line 12 of your 1040 Form. Please retrieve a copy of the 1040 Form from the iCON Members’ Lounge.

Form 2 – 1040 U.S. Individual Income Tax Return

The 1040 is the most common tax form that is “supposed” to be filed each year. It has many sections designed to capture multiple segments of your personal and business tax information for the benefit of the IRS.
**Label:** This section tells the IRS who you are…name, address, and social security number of both you and your spouse.

**Filing Status:** How do you intend to file your taxes (single, married filing jointly, married filing separately, etc.)?

**Exemptions:** Always in taxes when you see “exemptions” you should think “people”. How many people do you have living in your home? For our sample couple that is the husband, the wife, and one child for a total of 3 exemptions. Exemptions should not be confused with **dependents** (the number of children in your household) and **allowances** (used primarily to determine the amount of income tax to withhold from your paycheck via the W-4 Form to be discussed later.)

**Income:** This section lists all available sources of income. As we are covering the largest majority of the populace, we will focus on 2 primary sources of income:

**Line 7:** How much income did you make from your **Job**? Our sample couple made a combined **$65000** income from their jobs.

**Line 12:** **Business income or loss.** From the Schedule C transfer the **($-22000)**

**Line 22:** This reduces their taxable income down **$43000**.

Instead of paying taxes on $65000 (which for a married couple filing jointly would be $9104 owed in taxes), the business losses reduced their taxable income to $43000 (owing only $5671 in taxes.) That’s an immediate **$3433** savings in tax dollars!!

Carry Line 22 ($43000) to the back page to Line 38. From there you are directed to deduct the **standard or itemized deduction** on Lines 40 and 41, and deduct the **exemptions** (people allotment) on Lines 42 and 43. The number on Line 43 ($22100) is the number you pay taxes on. Line 44 tells how much taxes you owe ($2536) based on your filing status and your taxable income.

**But WAIT…We are not finished yet!!**
Payments: Now that we have determined what you owe ($2536); Uncle Sam takes into account what you paid in Federal taxes on Line 64. If what you paid throughout the year in Federal taxes is higher than $2536 (and for most people it will be), then any extra money is returned to you (a refund check.) This number could be thousands or tens-of-thousands depending on your individual circumstances.

Also in the Payments section is where your Earned Income Credit (EIC) is determined. EIC is a credit for lower-income workers derived from a formula using their income and their dependents. Even workers whose incomes are too small to have paid taxes can get EIC. Your EIC is based on your taxable income on Line 37 on the 1040. If your income is naturally too high to qualify you for EIC, your businesses losses (from your Schedule C and from Line 12 on the 1040) could reduce your taxable income to where you qualify for the EIC in addition to the expanded income from your business deductions.

As you can see, the addition of a business is essential in reducing your tax liability. As many people receive thousands of tax dollars in the form of a tax return at the end of the year, they become faced with one more beauty of Uncle Sam; he doesn’t make them wait until the end of the year to get their money!

When you get your refund check at the end of the year (for example $5000), it means that you have overpaid your taxes by $5000. The government held your monies for 12 months and made interest on it for 12 months. Uncle Sam then gave you the $5000 at the end of the year, kept all of the interest, and made you “happy” to get your money!

Did you know that you could instruct Uncle Sam to divide the $5000 into 12 increments of $416 and pay you one piece each month, and you could take the $416 and put it where it pays you interest? The question is…

Who do you want to make interest on your money…you or Uncle Sam?!
Form 3 – Form W-4 The Personal Allowances Worksheet

The W-4 Form is the instrument through which the IRS allows you to determine how much taxes will be taken from your paycheck each payday. One of the primary justifications for which the IRS allows you to adjust the W-4 Form is the estimated deductions you will receive from your business. Please retrieve the sample copy of the W-4 Form from the iCON Members’ Lounge, as it will be necessary to navigate through this section.

Ironically, the W-4 is one of the most misunderstood forms within the tax arena. The employees, the human resource workers, and the financial professionals all appear to be confused about its purpose. The following is a list of myths that have been given in the past regarding the W-4:

Myth #1 – At our company we only change the W-4’s once a year.

Reality: Your Company does not decide how often you can change your W-4; your life circumstances do. You are allowed to change the W-4 as often as is necessary to keep up with the nuances of your life. This can be as often as monthly or less if your personal circumstances make it necessary. Your employer’s sole accountability is to change the form within 30 days of your submission…no questions asked!

Myth #2 - You cannot raise the W-4 higher than 10 “dependents.”

Reality: You are allowed to raise the W-4 as high as you desire to accommodate your individual circumstances. The allowances on many W-4’s have been as high as 20-30 based on the circumstances of the provider. Also, note that the W-4 has very little to do with “dependents” (3 questions.) The form deals specifically with ALLOWANCES, which are exceptions you are allowed to take based on the circumstances in your life.

Examples include: dependents, alimony, deductible IRA contributions, student loan interest, dividends and interest, and all other “adjustments to income.” Perhaps the largest adjustment to income is the Net Business Losses from your Schedule C Form.
Myth #3 - If you put 10 allowances we have to send the W-4 to the IRS.

Reality: The IRS instructed the employers that the W-4’s are not to be sent to the IRS unless the IRS specifically requests them. Indeed, the W-4’s are to be adjusted as per employee request, and left in your company’s Human Resources Office until (if ever) the IRS desires to see them.

Myth #4 - If you put 10 on the W-4, we need to see 10 Social Security numbers.

Reality: Some replies are so bizarre that they stop you in your tracks. A sarcastic response to this request is to inform the employer that you would be happy to send them 10 Social Security numbers if they would be so kind as to look at the W-4 Form and tell you where the 10 Social Security numbers are to be placed! Wouldn’t it be easier if the employer could simply utter 3 simple words, “I…Don’t…Know…?”

Myth #5 - If you put that many numbers on the W-4 you’re going to go to jail!

Reality: NOT TRUE! If the IRS feels that you have erred (intentionally or unintentionally) in listing the allowances on your W-4, they will send a “Lock-in letter” to your employer instructing them to freeze your allowances at a certain number. You can write the IRS to challenge the lock-in letter if you feel the decision was made in error.

As is obvious, the W-4 has many myths (and some outright delusions) about its purpose, and the responsibilities of the employee and employer regarding its implementation. Financial professionals further cloud the issue by providing uninformed and sometimes “slanted” advice. All of these obstacles combine to create very frightened and confused employees.
The Rules

The rules of the W-4 Form are simple…the more numbers (known as allowances) you write on the form, the more money you bring home. The opposite is also true…the less numbers you write on the form, the less money you bring home.

If indeed it is your desire to bring more money home, then you need more allowances. As stated previously, one of the strongest legal justifications to raise the allowances on the W-4 is the anticipated business deductions you have on your Schedule C and 1040 Forms that were discussed earlier.

W-4 Page 1 (Start)

The top half of this page moves you from Lines A-G and you tally all numbers on Line H. It is largely a get-in-where-you-fit-in process. Simply read each option and determine if it applies to you. If it applies, put the number as specified. If it does not apply, put 0. Do this for Lines A-G and tally all numbers on Line H.

The bottom half of the page 1 begins with your background information (name, address, Social Security, etc,) on Lines 1-4. Complete this information and move to Line 5. Line 5 asks for your total allowances from Line H above, or, if you plan to itemize go to Page 2.

W-4 Page 2

On the top half of this page, fill in Lines 1-10. Note that your estimated business deductions will be placed on Line 4 as an adjustment to your income. (**To determine your estimated business deductions use the Business Deductions Estimator Form that is located at the end of this book.) Be sure to follow this section one number at a time and do exactly what it says. When you complete Line 10, place this number on Page 1 Line 5.

The bottom half of Page 2 is the Two Earner-Multiple Jobs Worksheet. This section should be completed only if you desire the IRS to take extra money from your paycheck.
W-4 Page 1 (Finish)

Retrieve the number from Page 2 Line 10 and place it on Page 1 Line 5. Complete Lines 6-7, sign and date the form, and you have successfully raised your W-4 Form.

So What Does All Of This Mean?

For every extra allowance you add to the W-4 Form, you will put extra money in your paycheck each pay period. Lower incomes have received $250/mo, median incomes $400-$1200/mo, and upper incomes $2200 and higher per month. Essentially, you will receive the monies that you would normally get at the end of the year, in monthly increments throughout the year. The monies can now work for you all year long to eliminate debt, increase investments, or any other desire you may have.

Having received your monies throughout the year, you will now document to justify your estimated business deductions at the end of the year. When done properly, you should even out and legally owe nothing at the end of the year.

For detailed instructions in a video format using the actual tax forms, visit our Tax Webinars at www.iconofsuccess.com.

Documentation is the key in all business transactions, and in taxes, documentation is absolutely essential! What tax records should you keep, how should you record it, and what are the “tricks of the trade” to make life easier? For the answer to these and many other questions please proceed forward.
CHAPTER 4

Dynamite Documentation!!

Year after year bright-eyed business owners become tax proficient and legally relieve themselves of thousands annually in tax liability. At the same time, other business owners set up fraudulent tax shelters and pray that their “ticking tax bomb” does not explode for yet another year. What is the difference between the two? Education and Documentation!

In previous chapters we have covered the multiple tax deductions available to the business owner, how to apply the top 7 deductions, and the tax forms associated with the process with a special focus on the W-4 Form for the employee/business owners to free up thousands in tax dollars annually. Our final step is the proper documentation of our activities so we can avoid the “ticking tax bomb” described above. As this is done we will join the ranks of the tax-proficient business professionals.

The Necessities

1. A Tax Documentation System: Whether it is computerized, or handwritten, a proficient system of recording your business tax records is essential. This system must be capable of updating tax records on a daily basis, and transforming to monthly and annual recordings. For those with computerized systems, this is done automatically. If you have a handwritten system, you can use the Daily and Annual Expense Organizer Forms located in the iCON Members’ Lounge to document your expenses. Details of the specific categories of the system and what is required in each category by the IRS will be discussed later.

2. Receipt Storage System: A system of monthly and annual storage for receipts will significantly enhance the efficiency of your tax system. It can be as simple as a letter envelope to hold monthly receipts, which is transferred to a 9 x 11 manila envelope for permanent storage. On the outside of the manila envelope write the month and the year for easy referral at a later
date if it becomes necessary. If you have a written system, this manila envelope will also hold a month’s worth of daily expense sheets.

3. **Mileage Notepad**: This small notepad can be purchased inexpensively at any dollar store, and will be the key to perhaps your largest tax deduction. This notepad is to be placed in your car, and every morning when you drive, record the date, the beginning mileage, and a brief description of your daily business activities. At the end of the day record your ending mileage. Be as detailed as desired in this notepad as your eyes are the only eyes that will physically see it. The results from this notepad will be transferred to your computerized or handwritten tax documentation system on a daily basis.

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**The Rules**

As there are many tax deductions and categories, we will cover the major areas of deductions with detail of the IRS requirements for each area. If perchance you have a deduction that does not fit comfortably in the topics provided, don’t fret. Simply create a category entitled “other” and place the deduction totals and a description of the each deduction there. Let’s get started!

1. **Mileage**: You can actually have more than one vehicle for business purposes, and if that is your circumstance, you can use one vehicle exclusively for business. List the first vehicle as car 1, the second vehicle as car 2, etc. Whatever number you ascribe to the vehicle, it must keep that number for the remainder of the year or the life of the vehicle, whichever comes first. It is suggested that once you number a vehicle, that vehicle should keep that number for the life of the vehicle to avoid ever having confusion.

The mileage log should also contain a beginning and ending mileage on a daily basis, with a description of your daily activities, and a total for business and personal mileage. All of this information will be contained in the vehicle notepad that we described earlier.
*As stated previously, you only need to maintain vehicle mileage for 3 consecutive months.

2. **Actual Car Expenses**: Once again number your vehicles in the same manner as the mileage. Record the gas and oil, repairs and maintenance, and any other unspecified expenses for each vehicle. Be sure to gather receipts to document your expenses. You can also depreciate the value of the vehicle until it is completely depleted.

3. **Meals and Entertainment (In Town)**: Regarding this deduction the IRS wants to know several pieces of information:
   - **Who**: Who you were entertaining?
   - **Where**: The name and location of the place you took them.
   - **Why**: The purpose for you meeting with the person.
   - **Type of event**: Was it breakfast, lunch, or dinner? Was it cocktails, a show, a home presentation, or other?
   - **Total**: Total cost plus gratuity.

   Note that there can be multiple meals in one day, and more than one of each meal. For example: You could hold an early lunch meeting at 11:00AM, a mid lunch meeting at 12:30PM, and a late lunch meeting at 2:00PM.

   **Receipts**: You are legally required to only collect receipts for meals and entertainment that are $75 or higher. But it is recommended that you hold all receipts so there can be no confusion. On the back of each receipt write the location, the date, the name of the guest, the purpose of the meeting, and the total plus tip. It is understood that much of the information written will be printed on the receipt, but due to fading receipts it is a necessary precaution to re-write it.

4. **Overnight Travel**: The IRS wants to know several key pieces of information:
   - **Where**: Was there a special event that you were going to?
   - **City/State**: What city/state did you visit?
   - **Purpose**: What was the purpose of the trip? To sell products, expand your business, etc.

   Once this basic information is gathered, you can take following array of deductions:
♦ **Meals:** Breakfast, lunch, dinner, and snacks. Total plus tip.

♦ **Transportation:** Plane, train, bus, car, taxi, parking, etc. You must keep a receipt for plane, train, and bus.

♦ **Lodging:** Hotel, motel, etc. You must keep a receipt for lodging.

♦ **Laundry:** While on the trip and the first cleaning following the trip.

♦ **Other:** Any other business-related expenses that went unmentioned.

5. **Miscellaneous Expenses:**

- **Business Gifts:** Business gifts to individuals have a $75 per year limit. For gifts to businesses the amount is unlimited, but the business must have a Tax Id. In addition, the IRS wants specific information regarding business gifts:
  
  ✓ **Who:** Who did you give the gift to?
  
  ✓ **What:** What was the gift? Gift certificate, trophy, flowers, etc.
  
  ✓ **Why:** Was it given for productivity, an award, etc.?

  **Additional info:** Any extra information to help you remember the gift up to 3 years later if you are ever questioned.

- **Education:** Tapes, trainings, licenses, etc.

- **Dues/fees:** Professional organizations, business dues, etc.

- **Supplies:** Paper, copies, notebooks, etc.

- **Postage/Shipping:** Stamps, overnights, priorities, etc.

- **Home Business Expenses:** Rent/mortgage, utilities, etc

- **Other:** Any deduction that does not fit into the aforementioned categories.

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**By following these documentation procedures you could easily protect a business from beginning scale to multi-millions in volume. Once mastered, this process will eliminate the fear of the “ticking tax bomb.”**
Conclusion

LEARN TO REDUCE TAXES is one of the most desired segments of the iCON 5-Step Financial System. Through this venue millions of business owners can acquire and successfully protect thousands to tens-of-thousands of tax dollars annually. But before we conclude this book, it is necessary to cover one last topic…the tax preparer.

One of the worst feelings to encounter is to see an enthusiastic business owner that has diligently worked his/her business, earned business and/or tax income, and documented properly, only to take his/her taxes to a tax preparer that does not understand the system. The tax preparer immediately tells the business owner that he/she can’t take the deductions and the business owner is disheartened.

Always remember that you must do your due diligence to locate a proper tax preparer that understands your tax system. Most tax preparers are not trained in this field of expertise. Of the preparers that are trained, most feel it is too time consuming to undertake. As a result it can sometimes be difficult to find a competent and willing preparer. Be sure to interview your preparer properly to determine if they meet your tax needs. For assistance with locating a qualified tax specialist, visit the iCON Members’ Lounge and view the recommended providers.

With that covered, you are now completely prepared to navigate all sections of the tax arena and come out on top. From the tax deductions knowledge and application, to forms and audit-proof documentation, the ground work is laid for a beautiful alliance with your “Rich Uncle”. It is hopeful that this “marriage counseling” has been beneficial and will lead to a very fruitful relationship.

Many Happy Returns!!
EPILOGUE

REDUCE YOUR TAXES and
BUILD WEALTH FOR YOUR FUTURE

I want to share with you a little secret. As important and useful as all of the information you have read in the previous chapters, none of them carries as much weight as what I am about to show you in this short lesson. All that you have learned in Step-2, and if you choose to read Steps 1-5 of our 5-part series, will prepare you to reach your financial freedom goals and to become the WEALTHY person you deserve to be!

Every Step of our iCON 5-Step Financial System is designed to produce for you a “cash flow machine” assuming that you are willing to follow our system. The first Step to our System is to increase your earnings by starting a part-time, home-based business. Regardless of the type of business you use to increase your income, it is your responsibility to commit to your business, work hard and be disciplined enough to finish your goals. You should set exact goals for how much income you want to generate from your part-time business and get busy.

Because everyone has different goals and their situations vary, I will use average numbers to help make my point.

Let’s assume in Step-1, LEARN TO INCREASE INCOME, you generated an additional $1860.00 per month from your part-time business. However, you maintained your current
employment to cover all of your cost-of-living expenses. So the monies you generate from you business can be used exclusively to help you reach your financial freedom goals.

Let’s assume in Step-2, LEARN TO REDUCE TAXES, you created an additional **$350.00 per month** from the income tax benefits of having a home-based business. That’s right. You can receive immediate business tax credits in your paycheck on a monthly basis. But you have to be educated and tax savvy to do this. Be sure to get your copy of Step-2, LEARN TO REDUCE TAXES.

Let’s assume in Step-3, LEARN TO MINIMIZE EXPENSES, you created an additional **$250.00 per month** cash flow stream by learning to save money in areas you either never thought about, or you simply had no knowledge of. For example, the interest rate you pay on your credit cards or that whole life insurance policy you replaced with term. You’ll be surprised how much you can save by increasing your knowledge base. Be sure to get your copy of Step-3, LEARN TO MINIMIZE TAXES.

Let’s assume in Step-4, LEARN TO ELIMINATE DEBT, you produced another income stream by taking the cash-flow originated from steps 1-3 and paid off all your debts, including your HOME, in 3-8 years. If your total monthly debt WAS $2999.00 per month, then you would have an additional **$2999.00 per month** to help you reach your financial freedom goals. Be sure to get your copy of Step-4, LEARN TO ELIMINATE DEBT.

Let’s assume in Step-5, LEARN TO ACCELERATE INVESTMENTS, that your formulation is complete. You have a monthly cash-flow of $1860.00 from increased income. You have a monthly cash-flow of $350.00 from reduced income taxes. You have a monthly cash-flow of $250.00 from minimized expenses. You have a monthly cash-flow of $2,999.00 from eliminated debt. You have a total formulation of **$5,459.00 per month** to accelerate your investments. Even a one-time investment of $5,459.00 could change your future. Just imagine having **$5,459.00 every single month** to invest into your financial freedom goals.
Let’s assume you invested this $5,459.00/mo at a 9% interest rate, for 15 years. At the end of 15 years, you would have a whopping:

$2,065,717
TWO MILLION SIXTY-FIVE THOUSAND SEVEN HUNDRED AND SEVENTEEN DOLLARS!!!

Wealthy

Congratulations!
You’ve Reached Your Financial Freedom Goals!!
### BUSINESS DEDUCTIONS ESTIMATOR

1. **Meals and Entertainment:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_} \\
   *(50% Deduction)*

2. **Mileage:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

3. **Wages (Children):** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

4. **Supplies:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

5. **Communications:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

6. **Advertisement:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

7. **Business Travel:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

8. **Interest (Vehicle):** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}

9. **Other:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}
   *(Business Equipment, Home Expenses)*

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**TOTAL ESTIMATION:** $ \underline{\_\_\_\_\_\_\_\_\_\_\_\_}