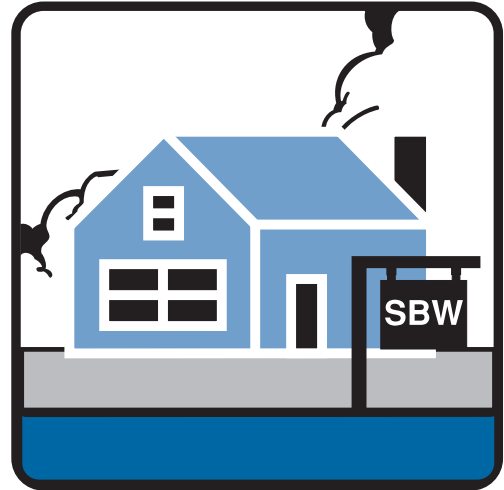
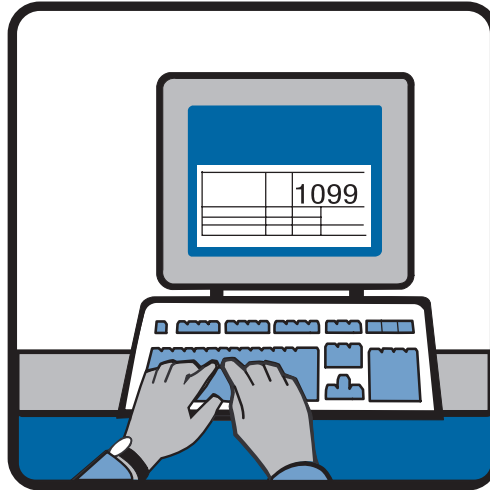


2001



Small Business Tax Workshop Workbook



Department of the Treasury
Internal Revenue Service

Publication 1066 (Rev. 6-01)
Catalog Number 46924L

www.irs.gov

The IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.



Internal Revenue Service

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Small Business Tax Workshop

Introduction

The Small Business Tax Workshop contains general information about different types of business organizations, recordkeeping requirements and business tax returns. If you need more information, see LESSON 1, pages 1-30 through 1-32, for a list of **free** Internal Revenue Service (IRS) publications. Call the IRS toll free at **1-800-TAX-FORM (1-800-829-3676)** to order.

If you have access to a personal computer, you can also download and print any of the 600 federal tax forms with instructions, approximately 100 tax publications and other tax materials from the IRS Web site at **www.irs.gov**.

An alternative to downloading files from the Internet is Publication 1796, **FEDERAL TAX PRODUCTS on CD-ROM**. This CD contains over 2,000 tax materials, including prior year forms. You can purchase the CD-ROM via the Internet at **www.irs.gov/cdorders** from the National Technical Information Service (NTIS) or by calling toll free **1-877-233-6767**.

THE SMALL BUSINESS RESOURCE GUIDE (IRS Publication 3207) contains information important to small businesses. Order your free copy by calling **1-800-829-3676**.

Another option is to receive forms, instructions and tax information from your fax machine by calling **703-368-9694** from the phone on your fax machine and following the prompts.

There is a new section on the IRS Web site called the Small Business and Self Employed Community at **www.irs.gov/smallbiz/index.htm**. If you run a small business or are self employed, the site is here to help you. It offers industry-/profession-specific information and provides links to other helpful sites.

You will be required to pay federal employment taxes if you have employees. Lessons 2 and 3 explain your responsibilities for paying these taxes.

Taxpayer Rights

As a taxpayer, you have the right to be treated fairly, professionally, promptly and courteously by IRS employees.

IRS Mission

Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

A discussion of your right to fairness if your return is examined or your account is in the collection process is included in Publication 1, YOUR RIGHTS AS A TAXPAYER.



You may find it helpful to have a general understanding of some activities of the IRS and how they relate to you as a business taxpayer. There are five areas of activity within the IRS with which you should be acquainted: Customer Account Services, Submission Processing, Examination and Appeals, Collection and the Taxpayer Advocate Service.

Customer Account Services

Customer Account Services is a liaison between taxpayers and IRS Submission Processing centers. Customer Account Services representatives can explain notices and answer other inquiries about your tax accounts. They can also help you understand and apply tax laws to help you determine your specific tax liability.

Service Centers

Whether you electronically file or mail your business and personal tax returns, they go to a regional submission processing center for processing. IRS processes them with an automated data processing (ADP) system. The ADP system keeps a record of all business and individual tax return transactions. Computer-generated bills for taxes due and notices explaining changes to accounts are sent to taxpayers by the submission processing centers, and submission processing centers arrange for taxpayers' refund checks to be sent to them.

Examination and Appeals

The IRS is required by law to determine and collect from each taxpayer only the correct amount of tax due. One way the IRS meets this obligation is by examining returns. A notice of examination does not necessarily mean that the IRS has found, or will find, something wrong with your return.

Tax returns are selected for examination for various reasons. Returns are computer-scored according to their probability of error. The selection may mean you did not give enough information about some item of income or deduction. You may have included nontaxable income or deducted an unallowable expense. You may have filed a claim for refund, and the return is examined to make sure the correct amount of tax is refunded.

Your tax return may be examined in your place of business, at an IRS office or at your tax representative's office. When the examination is completed, any adjustment will be explained to you. If you agree with any proposal to increase or decrease your tax liability, you will be asked to sign an agreement form. If you do not agree with any changes that are proposed by the examiner, you have certain appeal rights, both within the IRS and in the courts.

For more information, see Publication 556, EXAMINATION OF RETURNS, APPEAL RIGHTS AND CLAIMS FOR REFUND.

Collection

Most taxpayers pay their taxes by the date the return is due. For those who do not pay on time, the collection process begins when a taxpayer is sent a notice (demand for payment) from the IRS. The taxpayer should either pay the amount due or contact the IRS immediately. If the taxpayer does contact the IRS, an IRS employee will help determine whether the notice is valid, and, if so, how to pay any amount owed.

If a taxpayer who receives a notice does not pay the amount due and does not contact the IRS, or if a taxpayer defaults on a payment agreement, the IRS may take enforcement actions. Examples of enforcement action include the filing of a NOTICE OF FEDERAL TAX LIEN, the serving of a NOTICE AND DEMAND FOR PAYMENT and/or the seizure and sale of the taxpayer's property and rights to property.

To encourage prompt payment of withheld income, social security and Medicare (employment) taxes, Congress passed a law that provides for the trust fund recovery penalty. (These taxes are called *trust fund taxes* because you actually hold the employees' money in trust until you make a federal tax deposit in that amount.)

For more information, see Publications 594, *THE IRS COLLECTION PROCESS* and Publication 1660, *COLLECTION APPEAL RIGHTS*.

Taxpayer Advocate Service

The Taxpayer Advocate is the spokesperson for taxpayers who have been unable to resolve problems through normal channels. If you have an *ongoing* tax problem, call the IRS hotline at **1-877-777-4778** for help. You may also write to the Taxpayer Advocate at the office that last contacted you.



If the tax problem is causing or will cause you a significant hardship, the Taxpayer Advocate will arrange for an immediate review of your problem. A significant hardship may occur if you cannot maintain your business location, pay the utility bills for your business and meet payroll. Significant hardship could also occur if your business faces imminent bankruptcy or if the actions of IRS would cause irreparable damage to your business. While your account is reviewed, any additional enforcement action will be suspended if the Taxpayer Advocate determines that a significant hardship exists.

See Publication 1546, *THE TAXPAYER ADVOCATE SERVICE OF THE IRS*, for more information.

Free Tax Services

Most business taxpayers should be able to meet their tax responsibilities by using the packages of tax forms and instructions they receive from the IRS. Those who need more information may turn to the IRS' many free tax publications, education programs, audiovisual materials and other services. If additional information and assistance are needed, taxpayers can call the IRS or visit their local IRS office. By calling or visiting the IRS, taxpayers can get answers to questions about their account, general information about IRS procedures, services available or the tax law. Publication 910, *GUIDE TO FREE TAX SERVICES*, is available by calling **1-800-829-3676**

Telephone Service

Telephone tax assistance is available in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands by calling **1-800-829-1040**.

TELE-TAX

Tele-Tax is an IRS telephone service that provides both automated refund information and recorded tax information. The number is **1-800-829-4477**.

TTY/TDD

If you are hearing-impaired and have access to TTY/TDD equipment, you can call **1-800-829-4059** with your tax questions or to order forms and publications. See your tax form instruction booklet for the hours of operation.

**Walk-in Service**

Assistance is available in most IRS offices (Taxpayer Assistance Centers) to help you in preparing your individual federal tax return. You may also obtain tax forms, publications and help with questions about IRS notices or bills.

Taxpayer Education Programs

The IRS has a number of programs designed to help you understand your rights and obligations under our nation's tax system. Volunteers are an important part of these programs. To volunteer to help in one of our taxpayer education programs, or for times and locations of available services in your community, call the IRS at **1-800-829-1040** and ask for the number of your closest taxpayer education office. The taxpayer education programs include:

- Community Outreach
- Volunteer Income Tax Assistance (VITA)
- Tax Counseling for the Elderly
- Small Business Tax Education
- Bank, Post Office and Library Program
- Student Tax Clinics
- Understanding Taxes Program for Students
- Practitioner Education

**Publication 17,
Your Federal
Income Tax**

This publication can help you prepare your individual tax return. It takes you through the individual tax return and explains the tax laws that cover salaries and wages, interest and dividends, rental income, gains and losses, adjustments to income (such as reimbursed employee business expenses and IRA contributions) and itemized deductions.

**Publication 454,
Your Business
Tax Kit**

Publication 454, **YOUR BUSINESS TAX KIT**, is an assortment of IRS forms and publications to help taxpayers who operate their own businesses. Call **1-800-829-3676** to order the kit. The kit contains the following items:

Forms

- SS-4, APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER
- 1040-ES, ESTIMATED TAX FOR INDIVIDUALS
- 9779b, EFTPS BUSINESS ENROLLMENT FORM

Publications

- 509, TAX CALENDARS FOR 2002
- 583, STARTING A BUSINESS AND KEEPING RECORDS
- 594, THE IRS COLLECTION PROCESS
- 1544, REPORTING CASH PAYMENTS OF OVER \$10,000

**IRS e-file Programs
for Business**

If you have employment taxes to report, you can file your Form 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN, electronically — by telephone or through a third party such as a payroll service company. On-line filing of Form 941— through a personal computer—is also available. Visit the IRS Web site (*The Digital Daily*) at www.irs.gov and click on "Electronic Services" for more information. In addition, you can eliminate paper deposit coupons, trips to the bank and postage costs, by taking advantage of the Electronic Federal Tax Payment System (EFTPS). This system, with millions of users, allows you to initiate your Federal Tax Deposits (FTDs) electronically by telephone or personal computer, or you can have your financial institution initiate payments. Although this system is mandatory only for businesses that make in excess of \$200,000 in FTDs yearly, it is highly recommended and used by other smaller depositors because of its simplicity and convenience. To learn more about EFTPS or to request an enrollment form, call EFTPS Customer Service at **1-800-555-4477** or **1-800-945-8400**. See Lesson 6 for a more detailed discussion of the IRS' e-file Programs for Business.

Other Sources of Information

The following organizations offer services to people with small businesses:

- U.S. Government Printing Office – For a list of Federal publications that are for sale to assist small businesses, write to:
Superintendent of Documents
U.S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954
- U.S. Small Business Administration (SBA) – offers many publications on topics of interest to people with small businesses. A nationwide telephone service is provided through the SBA Office of Advocacy. The U.S. Small Business Administration Answer Desk assists callers with their small business problems. It also serves as a referral service to direct callers to the appropriate government agency, trade association and other information services. The toll-free number, available Monday through Friday from 9:00 A.M. to 5:00 P.M. EST, is **1-800-827-5722**.
- Small Business Development Centers and Business Information Centers (more than 1,000) – are available in most states and U.S. territories. Business workshops and counseling are available as well as research information for small businesses. Contact the SBA for local phone numbers and check the Internet at **www.asbd-cus.org** for more information.
- Service Corps of Retired Executives (SCORE) and Active Corps of Executives (ACE) – provide counseling for business people and conduct SBA-sponsored pre-business workshops.
- Social Security Administration (SSA) – The SSA provides information on proper reporting of social security wages for both paper and magnetic media filers. The SSA holds joint seminars with the IRS on proper wage reporting by employers.
- SSA and IRS issue a quarterly tax help newsletter (SSA/IRS REPORTER) which is designed to keep employers up to date on changes to their tax and employee wage obligations. View it on-line at **www.employers.gov/resources_fed_agencies.htm**.
- National Business, Professional or Trade Organizations – provide information for specific businesses and trades. Some examples of these are:
 - National Federation of Independent Businesses
 - National Association of the Self-Employed
 - National Association of Independent Contractors

- U. S. Chamber of Commerce and local Chambers of Commerce
- National Association of Enrolled Agents
- National Society of Certified Public Accountants
- Other Federal Agencies provide a variety of services and information for businesspersons:
 - U.S. Department of Agriculture – The Cooperative Extension Service County Agents help rural residents manage small family businesses and farms through workshops, counseling and other types of assistance.
 - U.S. Department of Labor – The Employment Standards Administration provides assistance regarding labor and wage relations and other labor management standards.
 - U.S. Department of Commerce – The Minority Business Development Agency supports the development of minority owned and managed businesses. Commerce also has an International Business Export Office that provides information on imports and exports.
- State and Local Agencies – provide information about local laws and regulations affecting business people. Since agency and organization names vary in many states, you may want to call your local or state Chamber of Commerce for help in identifying the organization you want:
 - State Departments of Revenue, Employment, Taxation or Equalization
 - State Department of Commerce for Minority Business Development
 - State Employment Commission or Employment Security Agency
 - State Department of Economic Development for Business Regulation
 - Governor’s Office of Community and Industrial Development
 - Governor’s Office of Minority and Small Business Development
 - Small Business Development Centers and Business Resource Centers

Lesson 1

Business Tax Requirements

Introduction

This section of the workshop gives general information about the types of business organizations and the advantages and disadvantages of each. In this section you will also learn about recordkeeping requirements and business tax returns.



Types of Business Organizations

Sole Proprietorship

A sole proprietorship is an unincorporated business that one individual owns. It is the simplest type of business organization. The business does not exist apart from the proprietor (owner). The proprietor assumes the risks of the business to the extent of all his or her assets, whether or not the assets are used in the business.

Advantages:

1. The business is simple to organize.
2. The owner has maximum freedom to make decisions.
3. The business has a minimum of legal restrictions.
4. The owner receives all the profits.
5. The business is easy to discontinue.

Disadvantages:

1. The owner has unlimited liability. The individual owner is legally liable for all debts of the business. Creditors may attach all of the owner's assets, even personal assets not used in the business.
2. There usually is limited ability to raise capital. The business capital is limited to whatever the owner can secure personally. This feature may limit the expansion of a business when new capital is required. A common cause of failure for this form of business organization is its original lack of capital.

Limited capital restricts the ability of a sole proprietor to operate the business effectively and survive at an initial low profit level, or to get through an economic rough spot.

For more information about sole proprietorships, see Publication 334.

Partnership

A partnership is a relationship between two or more persons who join together to carry on a trade or business. Each person contributes money, property, labor or skills, and each expects to share in the profits and losses of the business. Any number of persons may join in a partnership.



For the purpose of income taxes, a partnership includes a syndicate, group, pool, joint venture or other unincorporated organization that carries on a business and that is not classified as a trust, estate or corporation.

Advantages:

1. It is easy to organize.
2. It may have greater financial strength than a sole proprietorship.
3. It combines managerial skills and judgments of the partners.
4. It has a definite legal status.
5. Each partner has a personal interest in the business.

Disadvantages:

1. The liability of the partners is usually unlimited. Each partner may be held liable for all the debts of the business. Therefore, if one partner does not exercise good judgment, that partner can cause not only the loss of the partnership's assets, but also the loss of the other partners' personal assets.
2. The authority for decisions is divided.

For more information about partnerships, see Publication 541.

Limited Liability Company (LLC)

All states have enacted limited liability company statutes. An LLC is a separate legal entity formed by filing articles of organization with the secretary of state. LLCs (and similar entities called Limited Liability Partnerships – LLPs) combine certain features of partnerships with certain features of corporations, most notably, limited liability.

The individual members are not personally liable for the LLC's or LLP's debts or liabilities, except to the extent of their investment and capital commitment in the company. **It is important to note that an LLC/LLP is not a federal tax entity and is generally treated as a partnership by IRS.** A single-member LLC can be treated as a “disregarded entity” for tax purposes, even though still respected as separate for legal purposes. Thus, if owned by an individual, such an entity can be reported as a Schedule C sole proprietorship on the owner's personal tax return. For more information on the legal aspects of LLCs/LLPs, contact your secretary of state's office. For tax information, see IRS Publication 541 or the Instructions for Form 1065.

S Corporation

An S corporation is a small business corporation that elects to have its income taxed in a manner similar to that of a partnership. In general, an S corporation does not pay tax on its income. Instead, the income and expenses of the corporation are divided among its shareholders (limited to 75), who then report them on their own income tax returns.

For more information about S corporations, see the Instructions for Form 1120S and Form 2553.

Corporation

A corporation is treated by law as a legal entity. It has a life separate from its owners and has rights and duties of its own. The owners of a corporation are the stockholders. The managers of a corporation may or may not be stockholders.

Forming a corporation involves a transfer of money or property, or both, by the prospective shareholders in exchange for capital stock in the corporation.

For the purpose of federal income tax, corporations include associations, joint stock companies and trusts and partnerships that actually operate as associations or corporations.

Advantages:

1. The life of the business is perpetual.
2. The stockholders have limited liability.
3. Transfer of ownership is easy (sale of stock).

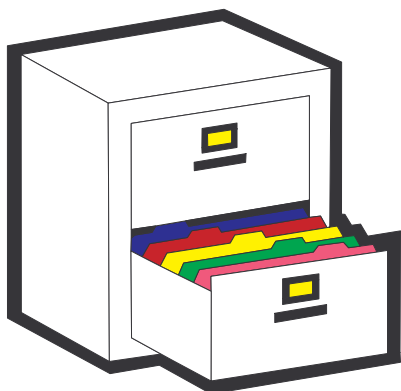
4. It is easier for corporations to raise capital and to expand than it is for other forms of business.
5. Management may be more efficient.
6. It is adaptable to both small and large businesses.

Disadvantages:

1. It is subject to tax on its income at the corporate level and when the income is distributed as dividends, it is taxed again, this time to the shareholder.
2. It may be more difficult and expensive to organize than other forms of ownership.
3. The corporate charter restricts the types of business activities.
4. It is subject to many state and federal controls.

For more information about corporations, see Publication 542.

Recordkeeping



You are required to keep records so that you can prepare complete and accurate tax returns. You must be able to substantiate items of income, deductions and credits. Keeping good records will help you pay only the tax you owe. For more information about recordkeeping, see Publication 583, **STARTING A BUSINESS AND KEEPING RECORDS**. Always keep your business records available for examination by the IRS.

Good records can help you:

- **Identify source of receipt.** You may receive cash or property from many sources. Unless you have records showing the source of your receipts, you may not be able to prove that some are nonbusiness or nontaxable.
- **Prevent omission of deductible expenses.** You may forget expenses when you prepare your tax return, unless you record them when you incur or pay them.
- **Establish earnings for self-employment tax purposes.** Your records should show the amount of earnings reportable for self-employment tax purposes. Self-employment tax is explained later, under **BUSINESS RETURNS**.
- **Explain items on income tax return.** If IRS examines your income tax return, you may be asked to explain the items reported. You must be able to support items on your return by sales slips, invoices, receipts, bank deposit slips,

canceled checks and other documents. These items of support are necessary if you are to have adequate and complete records.

Caution: Adequate Records

The recordkeeping rules require that you keep adequate documentary records or sufficient evidence corroborating your own statements, such as receipts and a log or diary, to support:

- deductions you take for travel, transportation, entertainment and business gift expenses and
- any deduction you take for certain business property.

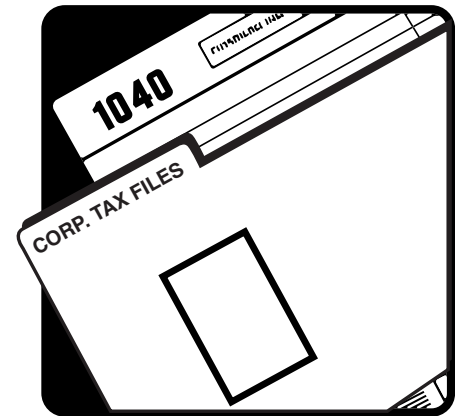
These records should substantiate the amount you claim, the time and place, the business purpose and your business relationship to any other persons involved. Incomplete records may not be enough for the deduction to be allowed. If your records are lost due to circumstances beyond your control, such as by flood or earthquake, you may substantiate a deduction by reasonable reconstruction. See Publication 583 for more information about recordkeeping requirements.

How Long To Keep Records

You must keep your records as long as their contents may be material in the administration of any Internal Revenue Service law.

Supporting Records

To support items of income or deduction on your tax return, you must keep records until the statute of limitations for that return expires. Ordinarily, the statute of limitations for an income tax return expires 3 years after the return is due to be filed or is filed, or 2 years from the date the tax is paid, whichever is later.



In many cases you must keep records indefinitely. For example, if you change your method of accounting, records supporting the necessary adjustments may remain material for an indefinite time.

You must keep records relating to the basis of property for as long as they are material in determining the basis of the original or replacement property.

Employment Tax Records

You must keep all employment tax records for at least 4 years after the date on which a tax return becomes due or the tax is paid, whichever is later. For more information, refer to Publication 15, *EMPLOYER'S TAX GUIDE* (Circular E).

Tax Returns

You should keep copies of your filed tax returns. They will help you in preparing your future tax returns and in making computations if you later file an amended return. They may also be helpful to the executor or administrator of your estate.

Bookkeeping Systems

Many people who run their own one-person business never bother to set up a *business* bookkeeping system separate from their personal one. Their checking account serves as both a personal and a business account. IRS recommends that you open a separate business bank account to maintain accounting efficiency.

You may use either a **single-entry** or **double-entry** system of bookkeeping. The single-entry system is the simplest to keep. The double-entry system has built-in checks and balances that give more accuracy and control.

With the single-entry system, you record a daily and a monthly summary of receipts and a monthly summary of paid expenses. This is not a complete accounting system, but it shows income and expenses well enough for tax purposes. This system centers on the business' profit and loss statement and not on its balance sheet. An example of a single-entry system is shown in Publication 583.

The double-entry system is self-balancing. Since all business transactions consist of an exchange of one thing for another, double-entry bookkeeping is used to show this twofold effect. You record every transaction in a journal as a debit entry in one account and as a credit entry in another account. After you post the journal entries to the ledger accounts, the total debits must equal the total credits. If the accounts do not balance, you have made an error.

Accounting Methods

On your return you must use the same accounting method you use to keep your records. Your accounting method is a set of rules that you use to decide when and how you report your income and expenses.

The two most commonly used accounting methods are the **cash method** and the **accrual method**. Under the cash method, you report all income in the year you receive it. You usually deduct expenses only in the tax year in which you pay them. Under the

accrual method, you report income in the year you earn it, regardless of when you receive the payment. You deduct expenses in the tax year you incur them, regardless of when you pay them. If your business has an inventory, the rules have recently changed. Prior to 2000, if you had inventory, you generally had to use the accrual method for purchases and sales. Now, if your business has annual gross profits of \$1 million or less, you are permitted to use the cash method of accounting. For more information, see Publication 553, HIGHLIGHTS OF 2000 TAX CHANGES.

Computerized System

There are computer software packages that you can use for recordkeeping. They can be purchased in many retail stores. These packages are very useful and relatively easy to use, and they require very little knowledge of bookkeeping and accounting.

Note: If you use a computerized system, you must be able to produce sufficient legible records from the system to provide the information needed to determine your correct tax liability.

Income Statement and Balance Sheet

An income statement, also called cash flow analysis, provides a perspective about your company's revenues, costs and profitability. A cash flow analysis is a detailed monthly account of how money flows into your business in the form of income and flows out of your business in the form of expenses. Subtracting expenses from income gives you a monthly result of how well your business is doing. (See Exhibit 1.1 on page 1-8.)

A balance sheet, on the other hand, provides a snapshot of the company's position at the *present* time. As the name implies, assets must **balance** or **equal** liabilities. (See Exhibit 1.2 on page 1-9.)



EXHIBIT 1.1 - CASH FLOW ANALYSIS (INCOME STATEMENT)

QuickMart, Inc. Fortsville, TX														
Projected Direct Cash Flow (First 12 Months)														
	Start	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Cash on Hand	60,000	25,000	23,342	23,860	25,662	28,246	31,079	31,150	31,796	33,467	37,418	43,184	47,926	
Cash Sales		7,125	11,063	13,388	14,925	14,288	11,400	11,250	12,675	17,738	22,275	22,500	20,363	178,988
Credit Card Sales		5,000	7,500	9,000	10,000	9,500	7,500	7,500	8,500	12,000	15,000	15,000	13,500	120,000
Cash Available		37,125	41,905	46,247	50,587	52,033	49,979	49,900	52,971	63,205	74,693	80,684	81,788	298,988
Credit Card Service Charges		-150	-225	-270	-300	-285	-225	-225	-255	-360	-450	-450	-405	-3,600
Loan/Invest	140,000	0	0	0	0	0	0	0	0	0	0	0	0	140,000
Total Cash Available	200,000	36,975	41,680	45,977	50,287	51,748	49,754	49,675	52,716	62,845	74,243	80,234	81,383	
Cash Paid Out														
Advertising & Promotion														
Bank Charges	1,800	110	110	110	110	30	30	30	30	110	110	110	110	2,800
Insurance		25	25	25	25	25	25	25	25	25	25	25	25	300
Interest		125	125	125	125	125	125	125	125	125	125	125	125	1,500
Inventory		1,225	1,222	1,219	1,216	1,214	1,211	1,208	1,205	1,202	1,199	1,196	1,193	14,508
Legal & Professional	25,000	9,055	13,007	15,502	17,203	16,776	14,743	13,917	15,287	20,305	25,858	27,136	24,084	237,873
Telephone		50	50	50	50	50	50	50	50	50	50	50	50	600
Payroll		80	80	80	80	80	80	80	80	80	80	80	80	960
Payroll Tax		1,860	1,860	1,860	1,860	1,000	1,000	1,000	1,000	2,050	2,050	2,050	2,050	19,640
Repairs & Maintenance			231	231	231	231	124	124	124	124	254	254	254	2,181
Sales Tax		60	60	60	60	40	40	40	40	60	60	60	60	640
Supplies											0			0
Taxes and Licenses	200	50	50	50	50	40	40	40	40	50	50	50	50	760
Telephone		100	100	100	100	100	100	100	100	100	100	100	100	1,200
Utilities		60	60	60	60	60	60	60	60	60	60	60	60	720
		460	465	465	490	515	590	690	690	690	640	610	520	6,825
Miscellaneous		50	50	50	50	50	50	50	50	50	50	50	50	600
Subtotal	27,000	13,310	17,495	19,987	21,710	20,335	18,268	17,539	18,906	25,081	30,711	31,956	28,811	291,107
Capital Purchases														136,000
Other Organizational Costs														7,000
Deposits														5,000
Principal Payment														
Owner's Withdrawal(Sole Prop or Partnership)		323	325	328	331	334	337	340	343	346	349	352	355	4,063
TOTAL CASH PAID OUT	175,000	13,633	17,820	20,315	22,041	20,669	18,605	17,879	19,249	25,427	31,060	32,308	29,166	
CASH POSITION	25,000	23,342	23,860	25,662	28,246	31,079	31,150	31,796	33,467	37,418	43,184	47,926	52,218	

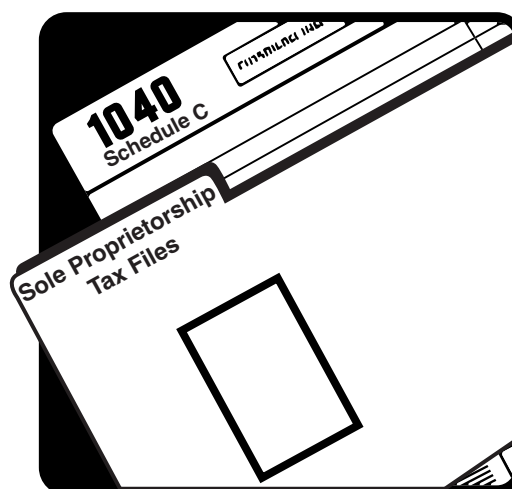
QuickMart INC													
Fortsville, TX													
Projected Balance Sheet (First 12 Months)													
	Start-up	January	February	March	April	May	June	July	August	September	October	November	December
Current Assets													
Cash	25,000	23,127	24,129	25,990	27,050	28,750	29,033	29,453	30,677	31,692	33,061	34,199	35,872
Accounts Receivable	0	750	1,250	1,375	1,250	1,188	1,063	1,063	1,188	1,375	1,500	1,500	1,500
Inventory	25,000	25,500	26,010	26,530	27,061	27,602	28,154	28,717	29,291	29,877	30,475	31,084	31,706
Deposits	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Total Current Assets	55,000	54,377	56,389	58,895	60,361	62,539	63,250	64,233	66,156	67,945	70,035	71,784	74,078
Property & Equipment Furniture & Equipment													
Land	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000	11,000
Buildings	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Improvements	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Acc. Depreciation	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Total Property & Equipment	-	-502	-1,003	-1,505	-2,006	-2,508	-3,009	-3,511	-4,012	-4,514	-5,015	-5,517	-6,018
Other Assets	136,000	135,498	134,997	134,495	133,994	133,492	132,991	132,489	131,988	131,486	130,985	130,483	129,982
Organizational Costs (Net Amort.)	9,000	8,850	8,700	8,550	8,400	8,250	8,100	7,950	7,800	7,650	7,500	7,350	7,200
Total Assets	200,000	198,725	200,086	201,941	202,755	204,282	204,341	204,672	205,944	207,081	208,520	209,617	211,260
Current Liabilities													
Accounts Payable	0	447	1,490	2,458	2,979	3,538	3,165	3,165	3,538	4,096	4,469	4,469	4,469
Income Taxes Payable	0	0	0	0	0	0	0	0	0	0	0	0	456
Payroll Tax Payable	0	231	231	231	231	124	124	124	124	254	254	254	254
Sales Tax Payable	0	0	0	0	0	0	0	0	0	0	0	0	0
Current LT Debt (Bank)	4,063	4,098	4,134	4,170	4,207	4,243	4,281	4,318	4,356	4,394	4,432	4,471	4,510
Total Current Liabilities	4,063	4,776	5,854	6,859	7,416	7,905	7,570	7,607	8,018	8,744	9,155	9,194	9,690
Long-Term Liabilities													
Long-Term Debt	135,937	135,579	135,218	134,854	134,486	134,115	133,741	133,364	132,983	132,599	132,212	131,821	131,427
Total Long-Term Liabilities	135,937	135,579	135,218	134,854	134,486	134,115	133,741	133,364	132,983	132,599	132,212	131,821	131,427
Total Liabilities	140,000	140,355	141,072	141,712	141,903	142,020	141,311	140,971	141,001	141,344	141,367	141,015	141,117
Capital													
Owner's Equity	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Dividend Distributions													
Retained Earnings	0	-1,630	-986	228	852	2,261	3,029	3,701	4,943	5,737	7,153	8,602	10,143
Current Profit or (Loss)	60,000	58,570	59,014	60,228	60,852	6							

Business Returns

Income and Income Tax

Sole Proprietors (and Some Single Member LLCs) File Schedule C

A sole proprietor files Schedule C (Form 1040), PROFIT OR LOSS FROM BUSINESS, or Form C-EZ, NET PROFIT FROM BUSINESS. (See page 1-23.) A single member LLC, owned by an individual and treated as a “disregarded entity,” files Schedule C. The proprietor or single member LLC files the Schedule C or C-EZ with their Form 1040 to report the business’ profit or loss. A filled-in Schedule C example is shown later in this lesson and in Publication 334. (See exhibits 1.8 and 1.9 on pages 1-20 and 1-21.)



Partnerships (and LLCs Taxed as Partnerships) File Form 1065

Partnerships (and LLCs taxed as partnerships) file Form 1065, U.S. PARTNERSHIP RETURN OF INCOME, which is an information return only. The partnership gives each partner a Schedule K-1 (Form 1065), PARTNER’S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC., and the partner uses it to complete Schedule E (Form 1040), SUPPLEMENTAL INCOME AND LOSS, and any other forms and schedules the partner must file with his or her individual return. A filled-in form 1065 is shown in Publication 541. (See Exhibits 1.3 and 1.4 on pages 1-11 through 1-13 for examples of Schedules E and K-1.)

EXHIBIT 1.3 - BLANK SCHEDULE E, PAGE 1 AND 2

SCHEDULE E (Form 1040) Department of the Treasury Internal Revenue Service (99)	Supplemental Income and Loss (From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)	OMB No. 1545-0074 2000 Attachment Sequence No. 13
Name(s) shown on return		Your social security number
Part I Income or Loss From Rental Real Estate and Royalties Note. Report income and expenses from your business of renting personal property on Schedule C or C-EZ (see page E-1). Report farm rental income or loss from Form 4835 on page 2, line 39.		

Schedule E (Form 1040) 2000	Attachment Sequence No. 13	Page 2																																								
Name(s) shown on return. Do not enter name and social security number if shown on other side.		Your social security number																																								
Note. If you report amounts from farming or fishing on Schedule E, you must enter your gross income from those activities on line 41 below. Real estate professionals must complete line 42 below.																																										
Part II Income or Loss From Partnerships and S Corporations Note. If you report a loss from an at-risk activity, you must check either column (e) or (f) on line 27 to describe your investment in the activity. See page E-5. If you check column (f), you must attach Form 6198.																																										
27	(a) Name	(b) Enter P for partnership; S for S corporation																																								
		(c) Check if foreign partnership																																								
		(d) Employer identification number																																								
		Investment At Risk?																																								
		(e) All is at risk																																								
		(f) Some is not at risk																																								
A																																										
B																																										
C																																										
D																																										
E																																										
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="2" style="text-align: center;">Passive income and loss</th> <th colspan="2" style="text-align: center;">Nonpassive income and loss</th> </tr> <tr> <th style="width: 25%;">(g) Passive loss allowed (attach Form 8582 if required)</th> <th style="width: 25%;">(h) Passive income from Schedule K-1</th> <th style="width: 25%;">(i) Nonpassive loss from Schedule K-1</th> <th style="width: 25%;">(j) Section 179 expense deduction from Form 4562</th> </tr> <tr> <td>A</td> <td></td> <td></td> <td></td> </tr> <tr> <td>B</td> <td></td> <td></td> <td></td> </tr> <tr> <td>C</td> <td></td> <td></td> <td></td> </tr> <tr> <td>D</td> <td></td> <td></td> <td></td> </tr> <tr> <td>E</td> <td></td> <td></td> <td></td> </tr> <tr> <td colspan="2">28a Totals</td> <td colspan="2">29</td> </tr> <tr> <td colspan="2">b Totals</td> <td colspan="2">30 ()</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">31</td> </tr> </table>			Passive income and loss		Nonpassive income and loss		(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss from Schedule K-1	(j) Section 179 expense deduction from Form 4562	A				B				C				D				E				28a Totals		29		b Totals		30 ()				31	
Passive income and loss		Nonpassive income and loss																																								
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss from Schedule K-1	(j) Section 179 expense deduction from Form 4562																																							
A																																										
B																																										
C																																										
D																																										
E																																										
28a Totals		29																																								
b Totals		30 ()																																								
		31																																								
29 Add columns (h) and (k) of line 28a		29																																								
30 Add columns (g), (i), and (j) of line 28b		30 ()																																								
31 Total partnership and S corporation income or (loss). Combine lines 29 and 30. Enter the result here and include in the total on line 40 below		31																																								
Part III Income or Loss From Estates and Trusts																																										

38 Combine columns (d) and (e) only. Enter the result here and include in the total on line 40 below	38
Part V Summary	
39 Net farm rental income or (loss) from Form 4835. Also, complete line 41 below	39
40 Total income or (loss). Combine lines 26, 31, 36, 38, and 39. Enter the result here and on Form 1040, line 17 ▶	40
41 Reconciliation of Farming and Fishing Income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), line 15b; Schedule K-1 (Form 1120S), line 23; and Schedule K-1 (Form 1041), line 14 (see page E-6)	41
42 Reconciliation for Real Estate Professionals. If you were a real estate professional (see page E-4), enter the net income or (loss) you reported anywhere on Form 1040 from all rental real estate activities in which you materially participated under the passive activity loss rules	42

Schedule E (Form 1040) 2000

EXHIBIT 1.4 - BLANK SCHEDULE K-1 (FORM 1065), PAGE 1

SCHEDULE K-1 (Form 1065) Department of the Treasury Internal Revenue Service		Partner's Share of Income, Credits, Deductions, etc. ▶ See separate instructions. For calendar year 2000 or tax year beginning _____, 2000, and ending _____, 20		OMB No. 1545-0099 2000																	
Partner's identifying number ▶ Partner's name, address, and ZIP code		Partnership's identifying number ▶ Partnership's name, address, and ZIP code																			
A This partner is a ☐ general partner ☐ limited partner ☐ limited liability company member B What type of entity is this partner? ▶ _____ C Is this partner a ☐ domestic or a ☐ foreign partner? D Enter partner's percentage of: <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"></td> <td style="width: 25%; text-align: center;">(i) Before change or termination</td> <td style="width: 25%; text-align: center;">(ii) End of year</td> </tr> <tr> <td>Profit sharing</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> <tr> <td>Loss sharing</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> <tr> <td>Ownership of capital</td> <td style="text-align: center;">%</td> <td style="text-align: center;">%</td> </tr> </table> E IRS Center where partnership filed return: _____			(i) Before change or termination	(ii) End of year	Profit sharing	%	%	Loss sharing	%	%	Ownership of capital	%	%	F Partner's share of liabilities (see instructions): Nonrecourse \$ _____ Qualified nonrecourse financing . . . \$ _____ Other \$ _____ G Tax shelter registration number . . ▶ _____ H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ☐ I Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1							
	(i) Before change or termination	(ii) End of year																			
Profit sharing	%	%																			
Loss sharing	%	%																			
Ownership of capital	%	%																			
J Analysis of partner's capital account: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 20%;">(a) Capital account at beginning of year</th> <th style="width: 20%;">(b) Capital contributed during year</th> <th style="width: 20%;">(c) Partner's share of lines 3, 4, and 7, Form 1065. Schedule M-2</th> <th style="width: 20%;">(d) Withdrawals and distributions</th> <th style="width: 20%;">(e) Capital account at end of year (combine columns (a) through (d))</th> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </table>					(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065. Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))												
(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065. Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))																	
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;">(a) Distributive share item</th> <th style="width: 10%;">(b) Amount</th> <th style="width: 40%;">(c) 1040 filers enter the amount in column (b) on:</th> </tr> <tr> <td style="vertical-align: top;"> Income (Loss) 1 Ordinary income (loss) from trade or business activities 1 2 Net income (loss) from rental real estate activities 2 3 Net income (loss) from other rental activities 3 4 Portfolio income (loss): a Interest 4a b Ordinary dividends 4b c Royalties 4c d Net short-term capital gain (loss) 4d e Net long-term capital gain (loss): (1) 28% rate gain (loss) 4e(1) (2) Total for year. 4e(2) f Other portfolio income (loss) (attach schedule) 4f </td> <td> </td> <td rowspan="7"> See page 6 of Partner's Instructions for Schedule K-1 (Form 1065). Sch. B, Part I, line 1 Sch. B, Part II, line 5 Sch. E, Part I, line 4 Sch. D, line 5, col. (f) Sch. D, line 12, col. (g) Sch. D, line 12, col. (f) Enter on applicable line of your return. See page 6 of Partner's Instructions for Schedule K-1 (Form 1065). Enter on applicable line of your return. </td> </tr> <tr> <td style="vertical-align: top;"> Deductions 5 Guaranteed payments to partner 5 6 Net section 1231 gain (loss) (other than due to casualty or theft) 6 7 Other income (loss) (attach schedule) 7 </td> <td> </td> </tr> <tr> <td style="vertical-align: top;"> Credits 8 Charitable contributions (see instructions) (attach schedule) 8 9 Section 179 expense deduction 9 10 Deductions related to portfolio income (attach schedule) 10 11 Other deductions (attach schedule) 11 </td> <td> </td> <td rowspan="5"> Sch. A, line 15 or 16 See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065). Form 8586, line 5 See page 8 of Partner's Instructions for Schedule K-1 (Form 1065). </td> </tr> <tr> <td style="vertical-align: top;"> Credits 12a Low-income housing credit: (1) From section 42(j)(5) partnerships for property placed in service before 1990 12a(1) (2) Other than on line 12a(1) for property placed in service before 1990 12a(2) (3) From section 42(j)(5) partnerships for property placed in service after 1989 12a(3) (4) Other than on line 12a(3) for property placed in service after 1989 12a(4) </td> <td> </td> </tr> <tr> <td style="vertical-align: top;"> Credits b Qualified rehabilitation expenditures related to rental real estate activities 12b c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities 12c d Credits related to other rental activities 12d </td> <td> </td> </tr> <tr> <td style="vertical-align: top;"> 13 Other credits 13 </td> <td> </td> </tr> </table>					(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:	Income (Loss) 1 Ordinary income (loss) from trade or business activities 1 2 Net income (loss) from rental real estate activities 2 3 Net income (loss) from other rental activities 3 4 Portfolio income (loss): a Interest 4a b Ordinary dividends 4b c Royalties 4c d Net short-term capital gain (loss) 4d e Net long-term capital gain (loss): (1) 28% rate gain (loss) 4e(1) (2) Total for year. 4e(2) f Other portfolio income (loss) (attach schedule) 4f		See page 6 of Partner's Instructions for Schedule K-1 (Form 1065). Sch. B, Part I, line 1 Sch. B, Part II, line 5 Sch. E, Part I, line 4 Sch. D, line 5, col. (f) Sch. D, line 12, col. (g) Sch. D, line 12, col. (f) Enter on applicable line of your return. See page 6 of Partner's Instructions for Schedule K-1 (Form 1065). Enter on applicable line of your return.	Deductions 5 Guaranteed payments to partner 5 6 Net section 1231 gain (loss) (other than due to casualty or theft) 6 7 Other income (loss) (attach schedule) 7		Credits 8 Charitable contributions (see instructions) (attach schedule) 8 9 Section 179 expense deduction 9 10 Deductions related to portfolio income (attach schedule) 10 11 Other deductions (attach schedule) 11		Sch. A, line 15 or 16 See pages 7 and 8 of Partner's Instructions for Schedule K-1 (Form 1065). Form 8586, line 5 See page 8 of Partner's Instructions for Schedule K-1 (Form 1065).	Credits 12a Low-income housing credit: (1) From section 42(j)(5) partnerships for property placed in service before 1990 12a(1) (2) Other than on line 12a(1) for property placed in service before 1990 12a(2) (3) From section 42(j)(5) partnerships for property placed in service after 1989 12a(3) (4) Other than on line 12a(3) for property placed in service after 1989 12a(4)		Credits b Qualified rehabilitation expenditures related to rental real estate activities 12b c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities 12c d Credits related to other rental activities 12d		13 Other credits 13	
(a) Distributive share item	(b) Amount	(c) 1040 filers enter the amount in column (b) on:																			
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For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Cat. No. 11394R

Schedule K-1 (Form 1065) 2000

EXHIBIT 1.4 - BLANK SCHEDULE K-1 (FORM 1065), PAGE 2

Schedule K-1 (Form 1065) 2000		Page 2	
(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a Interest expense on investment debts	14a	Form 4952, line 1 See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b (1) Investment income included on lines 4a, 4b, 4c, and 4f	14b(1)	
	(2) Investment expenses included on line 10	14b(2)	
Self-employment	15a Net earnings (loss) from self-employment	15a	Sch. SE, Section A or B See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b Gross farming or fishing income	15b	
	c Gross nonfarm income	15c	
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b Adjusted gain or loss	16b	
	c Depletion (other than oil and gas)	16c	
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)	
	e Other adjustments and tax preference items (attach schedule)	16e	
Foreign Taxes	17a Name of foreign country or U.S. possession ▶	17b	Form 1116, Part I
	b Gross income sourced at partner level	17b	
	c Foreign gross income sourced at partnership level:		
	(1) Passive	17c(1)	
	(2) Listed categories (attach schedule)	17c(2)	
	(3) General limitation	17c(3)	
	d Deductions allocated and apportioned at partner level:		
	(1) Interest expense	17d(1)	
	(2) Other	17d(2)	
	e Deductions allocated and apportioned at partnership level to foreign source income:		
	(1) Passive	17e(1)	
(2) Listed categories (attach schedule)	17e(2)		
(3) General limitation	17e(3)		
f Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	17f	Form 1116, Part II	
g Reduction in taxes available for credit and gross income from all sources (attach schedule)	17g	See Instructions for Form 1116.	
Other	18 Section 59(e)(2) expenditures: a Type ▶	18b	See page 9 of Partner's Instructions for Schedule K-1 (Form 1065).
	b Amount	18b	
	19 Tax-exempt interest income	19	Form 1040, line 8b
	20 Other tax-exempt income	20	See pages 9 and 10 of Partner's Instructions for Schedule K-1 (Form 1065).
	21 Nondeductible expenses	21	
	22 Distributions of money (cash and marketable securities)	22	
	23 Distributions of property other than money	23	Form 8611, line 8
	24 Recapture of low-income housing credit:		
a From section 42(j)(5) partnerships	24a		
b Other than on line 24a	24b		
Supplemental Information	25 Supplemental information required to be reported separately to each partner (attach additional schedules if more space is needed):		
			
			
			
			
			



EXHIBIT 1.5 - BLANK SCHEDULE K-1 (FORM 1120S), PAGE 1)

SCHEDULE K-1 (Form 1120S) Department of the Treasury Internal Revenue Service	Shareholder's Share of Income, Credits, Deductions, etc. ▶ See separate instructions. For calendar year 2000 or tax year , 2000, and ending , 20	OMB No. 1545-0130 2000	
Shareholder's identifying number ▶ Shareholder's name, address, and ZIP code		Corporation's identifying number ▶ Corporation's name, address, and ZIP code	
A Shareholder's percentage of stock ownership for tax year (see instructions for Schedule K-1) ▶ % B Internal Revenue Service Center where corporation filed its return ▶ C Tax shelter registration number (see instructions for Schedule K-1) ▶ D Check applicable boxes: (1) ☐ Final K-1 (2) ☐ Amended K-1			
(a) Pro rata share items (b) Amount (c) Form 1040 filers enter the amount in column (b) on:			
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1	See pages 4 and 5 of the Shareholder's Instructions for Schedule K-1 (Form 1120S). Sch. B, Part I, line 1 Sch. B, Part II, line 5 Sch. E, Part I, line 4 Sch. D, line 5, col. (f) Sch. D, line 12, col. (g) Sch. D, line 12, col. (f) (Enter on applicable line of your return.) See Shareholder's Instructions for Schedule K-1 (Form 1120S). (Enter on applicable line of your return.)
	2 Net income (loss) from rental real estate activities	2	
	3 Net income (loss) from other rental activities	3	
	4 Portfolio income (loss):		
	a Interest	4a	
	b Ordinary dividends	4b	
	c Royalties	4c	
	d Net short-term capital gain (loss)	4d	
	e Net long-term capital gain (loss):		
	(1) 28% rate gain (loss)	4e(1)	
(2) Total for year	4e(2)		
f Other portfolio income (loss) (attach schedule)	4f		
5 Net section 1231 gain (loss) (other than due to casualty or theft)	5		
6 Other income (loss) (attach schedule)	6		
Deductions	7 Charitable contributions (attach schedule)	7	Sch. A, line 15 or 16 See page 6 of the Shareholder's Instructions for Schedule K-1 (Form 1120S).
	8 Section 179 expense deduction	8	
	9 Deductions related to portfolio income (loss) (attach schedule)	9	
	10 Other deductions (attach schedule)	10	
Investment Interest	11a Interest expense on investment debts	11a	Form 4952, line 1 See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	b (1) Investment income included on lines 4a, 4b, 4c, and 4f above	11b(1)	
	(2) Investment expenses included on line 9 above	11b(2)	
Credits	12a Credit for alcohol used as fuel	12a	Form 6478, line 10 Form 8586, line 5 See page 7 of the Shareholder's Instructions for Schedule K-1 (Form 1120S).
	b Low-income housing credit:		
	(1) From section 42(j)(5) partnerships for property placed in service before 1990	12b(1)	
	(2) Other than on line 12b(1) for property placed in service before 1990	12b(2)	
	(3) From section 42(j)(5) partnerships for property placed in service after 1989	12b(3)	
	(4) Other than on line 12b(3) for property placed in service after 1989	12b(4)	
	c Qualified rehabilitation expenditures related to rental real estate activities	12c	
	d Credits (other than credits shown on lines 12b and 12c) related to rental real estate activities	12d	
	e Credits related to other rental activities	12e	
	13 Other credits	13	

For Paperwork Reduction Act Notice, see the Instructions for Form 1120S. Cat. No. 11520D Schedule K-1 (Form 1120S) 2000

EXHIBIT 1.5 - BLANK SCHEDULE K-1 (FORM 1120S), PAGE 2)

Schedule K-1 (Form 1120S) (2000)		Page 2	
(a) Pro rata share items		(b) Amount	(c) Form 1040 filers enter the amount in column (b) on:
Adjustments and Tax Preference Items	14a Depreciation adjustment on property placed in service after 1986	14a	See page 7 of the Shareholder's Instructions for Schedule K-1 (Form 1120S) and Instructions for Form 6251
	b Adjusted gain or loss	14b	
	c Depletion (other than oil and gas)	14c	
	d (1) Gross income from oil, gas, or geothermal properties	14d(1)	
	(2) Deductions allocable to oil, gas, or geothermal properties	14d(2)	
	e Other adjustments and tax preference items (attach schedule)	14e	
Foreign Taxes	15a Name of foreign country or U.S. possession	15b	Form 1116, Part I
	b Gross income sourced at shareholder level		
	c Foreign gross income sourced at corporate level:		
	(1) Passive	15c(1)	
	(2) Listed categories (attach schedule)	15c(2)	
	(3) General limitation	15c(3)	
	d Deductions allocated and apportioned at shareholder level:		
	(1) Interest expense	15d(1)	
	(2) Other	15d(2)	
	e Deductions allocated and apportioned at corporate level to foreign source income:		
	(1) Passive	15e(1)	
(2) Listed categories (attach schedule)	15e(2)		
(3) General limitation	15e(3)	Form 1116, Part II	
f Total foreign taxes (check one): ☐ Paid ☐ Accrued	15f		
g Reduction in taxes available for credit and gross income from all sources (attach schedule)	15g	See Instructions for Form 1116	
Other	16 Section 59(e)(2) expenditures: a Type		See Shareholder's Instructions for Schedule K-1 (Form 1120S).
	b Amount	16b	
	17 Tax-exempt interest income	17	Form 1040, line 8b
	18 Other tax-exempt income	18	
	19 Nondeductible expenses	19	See pages 7 and 8 of the Shareholder's Instructions for Schedule K-1 (Form 1120S).
	20 Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV	20	
	21 Amount of loan repayments for "Loans From Shareholders"	21	
	22 Recapture of low-income housing credit:		
a From section 42(j)(5) partnerships	22a	Form 8611, line 8	
b Other than on line 22a	22b		
Supplemental Information	23 Supplemental information required to be reported separately to each shareholder (attach additional schedules if more space is needed):		



S Corporation Files Form 1120S

An S corporation files Form 1120S, U.S. INCOME TAX RETURN FOR AN S CORPORATION, and pays tax on any items that are not passed through to shareholders. The S corporation gives each shareholder a Schedule K-1 (Form 1120S), SHAREHOLDER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Exhibit 1.5 on pages 1-14 and 1-15.) The shareholder uses the Schedule K-1 to complete Schedule E (Form 1040), and any other forms and schedules the shareholder must file with his or her individual return. Refer to the Instructions for Form 1120S for more information.

Corporation Files Either Form 1120 or 1120-A

A corporation files either Form 1120, U.S. CORPORATION INCOME TAX RETURN, or the short Form 1120-A, U.S. CORPORATION SHORT-FORM INCOME TAX RETURN, and pays tax on its income. A corporation's owners are shareholders and are generally employees. If the corporation paid dividends during the year, it gives each shareholder a Form 1099-DIV, STATEMENT FOR RECIPIENTS OF DIVIDENDS AND DISTRIBUTIONS. It gives each employee a Form W-2, WAGE AND TAX STATEMENT. The shareholders and employees use these forms to complete their individual returns. Publication 542 shows a filled-in Form 1120 and a filled-in Form 1120-A.

Self-Employment Tax

Self-employed people (sole proprietors) and partners in a partnership pay self-employment tax in place of the social security tax that is withheld from an employee's wages. Paying self-employment tax provides social security coverage.

You are subject to self-employment (SE) tax if you have \$400 or more of net earnings from self-employment income. In 2001, the tax rate for self-employment tax is 15.3%. The 15.3% rate is a total of 12.4% social security (old age, survivors and disability insurance) plus 2.9% for Medicare (hospital insurance).

**IMPORTANT!**

Income passed through to shareholders of an S Corporation is not subject to self-employment tax.

Note: In 2000, the maximum net earnings subject to the social security portion was \$76,200. In 2001 it is \$80,400.

There is no maximum limit on the amount subject to the 2.9% Medicare portion.

If you receive wages in 2001 from which social security and Medicare taxes are withheld, subtract those wages from the maximums to figure how much self-employment income is subject to the taxes. For example, in 2001 you receive wages of \$50,000 from your employer and net \$35,000 in self-employment income. You would first subtract your wages, \$50,000, from the social

security maximum, \$80,400. Only \$30,400 of your self-employment income is subject to the 12.4% social security portion of the self-employment tax.

If you have income subject to self-employment tax, figure the tax on Schedule SE (Form 1040), **SELF-EMPLOYMENT TAX**. If you have more than one business, use one Schedule SE and combine the profits and losses from all of your businesses. You must file Schedule SE if:

- your net earnings from self-employment are \$400 or more, or
- you had church employee income of \$108.28 or more. If you are a member of the clergy or a religious worker, you may not have to pay self-employment tax if you meet certain exemption requirements.

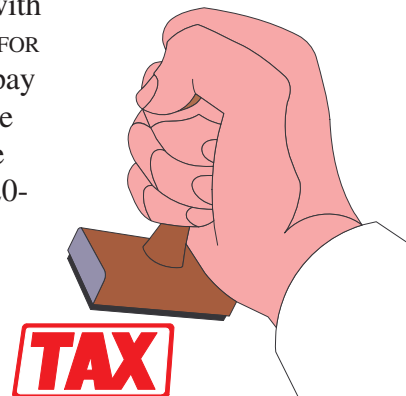
Schedule SE is shown later in this lesson. For more information, see Publication 533, **SELF-EMPLOYMENT TAX**.

Estimated Tax

Many sole proprietors, partners and S corporation shareholders must pay estimated taxes during the year. To determine if you must pay it, estimate your taxable income for the year. Include your self-employment income and all other taxable income. Also estimate how much of your income will be subject to withholding.

Your estimated tax is the amount by which the total of your estimated income tax and self-employment tax exceeds the tax you expect to have withheld from your wages, if any. You do not have to pay estimated tax if you reasonably expect your estimated tax to be less than \$1,000.

Use the worksheet that comes with Form 1040-ES, **ESTIMATED TAX FOR INDIVIDUALS**, to see if you must pay estimated tax and, if so, to figure the amount. Corporations figure their estimated tax on Form 1120-W (Worksheet), **ESTIMATED TAX FOR CORPORATIONS**.



Net Profit or Loss

After you report income on your return, the next steps reduce the amount on which you will pay tax. The basic way to determine profit or loss is much the same for each type of business organization.

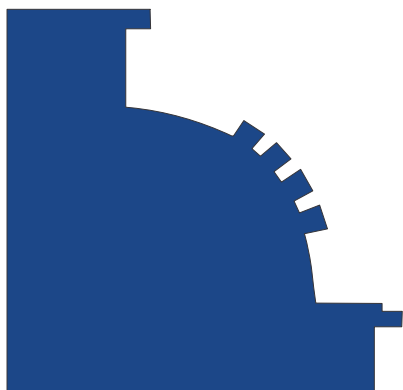
$$\text{Income} - \text{Expenses} = \text{Net profit or loss}$$

You will use this formula with some slight changes to determine your profit or loss on your tax return. This workbook expands the formula by discussing gross receipts and cost of goods sold, both of which are used in determining gross profit.

Gross Receipts or Sales

Gross receipts or sales are the income that a business receives from sales of its products or services. Gross receipts less returns and allowances equal net sales. In the example illustrated in this lesson, John's Furniture Store sold \$48,000 worth of furniture and had no returns or allowances. Therefore, the store had \$48,000 in both gross receipts and net receipts.

Cost of Goods Sold



Cost of goods sold is the cost to a business to buy or make the product that it sold. It would be easy to figure the cost of goods sold if you sold all your merchandise during the year. However, some of your sales will probably be from inventory that you carried over from earlier years and you will probably have inventory left unsold at the end of the year.

To figure the cost of goods sold, add the cost of goods purchased or manufactured during the year (less the cost of any merchandise withdrawn for personal use) to the value of the inventory on hand at the beginning of the year, and subtract the value of your inventory at the end of the year. This can be stated:

$$\text{Beginning inventory} + \text{Purchases} - \text{Ending inventory} = \text{Cost of goods sold}$$

For example, John's Furniture Store had an inventory of \$12,000 at the beginning of the year, purchased furniture costing \$26,000 during the year and had an ending inventory of \$9,800. The cost of goods sold was \$28,200 ($\$12,000 + \$26,000 - \$9,800 = \$28,200$).

Gross Profit

Gross profit equals the net receipts (the balance of gross receipts less returns and allowances) less the cost of goods sold. John's Furniture Store had gross (and net) receipts of \$48,000 and the cost of goods sold was \$28,200. The store's gross profit was \$19,800 ($\$48,000 - \$28,200 = \$19,800$).

Business Expenses

Business expenses are the ordinary and necessary expenses that are incurred in the operation of a business. The cost of business property that has a life of more than 1 year, such as a truck or a building, is not considered a current business expense. That cost is usually deducted on your tax return over a number of years as depreciation (discussed later). John's Furniture Store had a total of \$11,000 in current business expenses and depreciation.

Net Profit or Loss

Net profit or loss is the amount by which the gross profit and any other income for a period is more (or less, in the case of a loss) than the business expenses and depreciation for the same period. John's Furniture Store had a gross profit of \$19,800 and business expenses of \$11,000. The store's net profit was \$8,800 ($\$19,800 - \$11,000 = \$8,800$).

A filled-in Schedule C and SE, the forms for a sole proprietorship, are shown as examples. (See Exhibits 1.8, 1.9 and 1.10.) The same principles apply to forms for other types of business organizations. After you determine income, you must determine expenses, which is the other item in the formula for computing profit or loss.

Note: *You may be able to file the shorter Schedule C-EZ if you meet certain requirements. For more information, see Schedule C-EZ and Exhibit 1.11 on page 1-23.*

EXHIBIT 1.8 - SCHEDULE C, PG. 1, JOHN MARTIN EXAMPLE

SCHEDULE C (Form 1040)		Profit or Loss From Business (Sole Proprietorship)		OMB No. 1545-0074 2000 Attachment Sequence No. 09	
Department of the Treasury Internal Revenue Service (99)		▶ Partnerships, joint ventures, etc., must file Form 1065 or Form 1065-B. ▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).			
Name of proprietor		JOHN M. MARTIN		Social security number (SSN)	
				123 00 1234	
A Principal business or profession, including product or service (see page C-1 of the instructions)		RETAIL FURNITURE		B Enter code from pages C-7 & 8	
				▶ 442 1110	
C Business name. If no separate business name, leave blank.		JOHN'S FURNITURE MART		D Employer ID number (EIN), if any	
				100 0101 0110	
E Business address (including suite or room no.)		23 VALLEY ST.			
City, town or post office, state, and ZIP code		LAKE CITY, MD 21235			
F Accounting method: (1) ☐ Cash (2) ☒ Accrual (3) ☐ Other (specify) ▶					
G Did you "materially participate" in the operation of this business during 2000? If "No," see page C-2 for limit on losses				☒ Yes ☐ No	
H If you started or acquired this business during 2000, check here				☐	
Part I Income					
1 Gross receipts or sales. 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				☐	
				1 48,000 00	
2 Returns and allowances				2	
3 Subtract line 2 from line 1				3 48,000 00	
4 Cost of goods sold (from line 42 on page 2)				4 28,200 00	
5 Gross profit. Subtract line 4 from line 3				5 19,800 00	
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 19,800 00	
Part II Expenses. Enter expenses for business use of your home only on line 30.					
8 Advertising		8 200 00		19 Pension and profit-sharing plans	
9 Bad debts from sales or services (see page C-3)		9 150 00		20 Rent or lease (see page C-4):	
10 Car and truck expenses (see page C-3)		10 2,000 00		a Vehicles, machinery, and equipment	
11 Commissions and fees		11		b Other business property	
12 Depreciation		12		21 Repairs and maintenance	
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-3)		13 200 00		22 Supplies (not included in Part III)	
14 Employee benefit programs (other than on line 19)		14		23 Taxes and licenses	
15 Insurance (other than health)		15 1,000 00		24 Travel, meals, and entertainment:	
16 Interest:		16		a Travel	
a Mortgage (paid to banks, etc.)		16a		b Meals and entertainment	
b Other		16b		c Enter nondeductible amount included on line 24b (see page C-5)	
17 Legal and professional services		17		d Subtract line 24c from line 24b	
18 Office expense		18 300 00		25 Utilities	
28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns		28		26 Wages (less employment credits)	
				27 Other expenses (from line 48 on page 2)	
				28 11,000 00	
29 Tentative profit (loss). Subtract line 28 from line 7		29		29 8,800 00	
30 Expenses for business use of your home. Attach Form 8829		30		30	
31 Net profit or (loss). Subtract line 30 from line 29.		31		31 8,800 00	
• If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3. • If a loss, you must go to line 32.					
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). Estates and trusts, enter on Form 1041, line 3. • If you checked 32b, you must attach Form 6198.					
				32a ☐ All investment is at risk.	
				32b ☐ Some investment is not at risk.	
For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11334P Schedule C (Form 1040) 2000					

EXHIBIT 1.9 - SCHEDULE C, PG. 2, JOHN MARTIN EXAMPLE

Schedule C (Form 1040) 2000		Page 2
Part III Cost of Goods Sold (see page C-6)		
33 Method(s) used to value closing inventory: a ☒ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)		
34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation ☒ Yes ☐ No		
35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation . . .	35	12,000 00
36 Purchases less cost of items withdrawn for personal use	36	26,000 00
37 Cost of labor. Do not include any amounts paid to yourself	37	
38 Materials and supplies	38	
39 Other costs	39	
40 Add lines 35 through 39	40	38,000 00
41 Inventory at end of year	41	9,800 00
42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4 . . .	42	28,200 00
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. See the instructions for line 13 on page C-3 to find out if you must file.		
43 When did you place your vehicle in service for business purposes? (month, day, year) ▶ 06/07/1996		
44 Of the total number of miles you drove your vehicle during 2000, enter the number of miles you used your vehicle for:		
a Business 4,500 b Commuting 1,500 c Other 7,000		
45 Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No		
46 Was your vehicle available for use during off-duty hours? ☒ Yes ☐ No		
47a 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.		
DUES AND PUBLICATIONS	48	50 00
48 Total other expenses. Enter here and on page 1, line 27		50 00

EXHIBIT 1.10 - SCHEDULE SE, JOHN MARTIN EXAMPLE

SCHEDULE SE (Form 1040) Department of the Treasury Internal Revenue Service (99)	Self-Employment Tax ▶ See Instructions for Schedule SE (Form 1040). ▶ Attach to Form 1040.	OMB No. 1545-0074 2000 Attachment Sequence No. 17
Name of person with self-employment income (as shown on Form 1040) JOHN M. MARTIN		Social security number of person with self-employment income ▶ 123:00:1234

Who Must File Schedule SE

You must file Schedule SE if:

- You had net earnings from self-employment from other than church employee income (line 4 of Short Schedule SE or line 4c of Long Schedule SE) of \$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 had 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 52.

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

Did You Receive Wages or Tips in 2000?

No

Are you a minister, member of a religious order, or Christian Science practitioner who received IRS approval not to be taxed on earnings from these sources, but you owe self-employment tax on other earnings?

No

Are you using one of the optional methods to figure your net earnings (see page SE-3)?

No

Did you receive church employee income reported on Form W-2 of \$108.28 or more?

No

You May Use Short Schedule SE Below

Yes

Was the total of your wages and tips subject to social security or railroad retirement tax plus your net earnings from self-employment more than \$76,200?

No

Did you receive tips subject to social security or Medicare tax that you did not report to your employer?

No

You Must Use Long Schedule SE on the Back

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	1		
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), line 15a (other than farming); and Schedule K-1 (Form 1065-B), box 9. 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	2	8,800	00
3 Combine lines 1 and 2	3	8,800	00
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 ▶	4	8,127	00
5 Self-employment tax. If the amount on line 4 is: • \$76,200 or less, multiply line 4 by 15.3% (.153). Enter the result here and on Form 1040, line 52. • More than \$76,200, multiply line 4 by 2.9% (.029). Then, add \$9,448.80 to the result. Enter the total here and on Form 1040, line 52.	5	1,243	00
6 Deduction for one-half of self-employment tax. Multiply line 5 by 50% (.5). Enter the result here and on Form 1040, line 27	6	622	00

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 11358Z Schedule SE (Form 1040) 2000

EXHIBIT 1.11 -BLANK SCHEDULE C-EZ

SCHEDULE C-EZ (Form 1040) Department of the Treasury Internal Revenue Service (99)	Net Profit From Business (Sole Proprietorship) ▶ Partnerships, joint ventures, etc., must file Form 1065 or 1065-B. ▶ Attach to Form 1040 or Form 1041. ▶ See instructions on back.	OMB No. 1545-0074 2000 Attachment Sequence No. 09A
Name of proprietor _____		Social security number (SSN) _____

Part I General Information

You May Use Schedule C-EZ Instead of Schedule C Only If You:

- Had business expenses of \$2,500 or less.
- Use the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file Form 4562, Depreciation and Amortization, for this business. See the instructions for Schedule C, line 13, on page C-3 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service _____	B Enter code from pages C-7 & 8
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.). Address not required if same as on Form 1040, page 1. City, town or post office, state, and ZIP code _____	

Part II Figure Your Net Profit

1 Gross receipts. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see Statutory Employees in the instructions for Schedule C, line 1, on page C-2 and check here ☐	1	
2 Total expenses. If more than \$2,500, you must use Schedule C. See instructions	2	
3 Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on Form 1040, line 12, and also on Schedule SE, line 2. (Statutory employees do not report this amount on Schedule SE, line 2. Estates and trusts, enter on Form 1041, line 3.)	3	

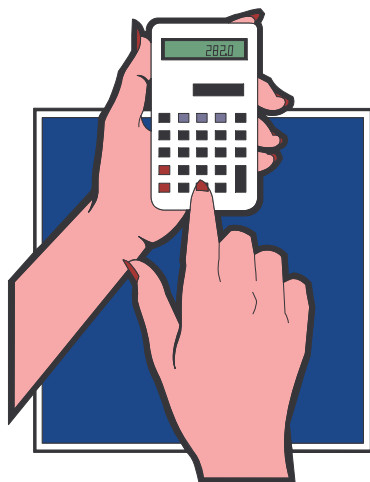
Part III Information on Your Vehicle. Complete this part **only** if you are claiming car or truck expenses on line 2.

- 4 When did you place your vehicle in service for business purposes? (month, day, year) ▶ ____/____/____.
- 5 Of the total number of miles you drove your vehicle during 2000, enter the number of miles you used your vehicle for:

a Business _____ b Commuting _____ c Other _____
- 6 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No
- 7 Was your vehicle available for use during off-duty hours? ☐ Yes ☐ No
- 8a Do you have evidence to support your deduction? ☐ Yes ☐ No
- b If "Yes," is the evidence written? ☐ Yes ☐ No

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 14374D Schedule C-EZ (Form 1040) 2000

Business Deductions and Credits



Both deductions and credits lower your tax. Deductions are subtracted from **income**, and credits are subtracted from **tax**.

The work opportunity credit (Form 5884) and the welfare-to-work credit (Form 8861) are of particular interest to those who already have, or are thinking about having, employees. The work opportunity credit provides an incentive to hire individuals from targeted groups that have a particularly high unemployment rate or other special employment needs. The amount of the credit depends on when the individual began working for you, generally before January 1, 2002. For more information, see Lesson 5, Tax Incentives for Employers.

The welfare-to-work credit is a credit that you can take for qualified wages you pay to qualified long-term family assistance recipients who started working for you after December 31, 1997 and before January 1, 2002. For more information, see Lesson 5, Tax Incentives for Employers.

You must receive certification from your state employment security agency before claiming either credit. Submit Form 8850, PRE-SCREENING NOTICE AND CERTIFICATION REQUEST FOR THE WORK OPPORTUNITY AND WELFARE-TO-WORK CREDITS, no later than 21 days after the employee begins working for you.

Travel, Transportation and Entertainment Expenses

Travel expenses are the ordinary and necessary expenses you incur in traveling away from home in the course of your trade or business. These expenses include the cost of public transportation, operating and maintaining your car, meals and lodging and other related expenses.

Transportation expenses are the ordinary and necessary expenses of getting from one workplace to another, in the course of your business or profession, while you are not away from home.

Business entertainment expenses are deductible only if they are ordinary and necessary expenses of carrying on your trade or business and you can prove them.

For more information, see Publication 334 and Publication 463, TRAVEL, ENTERTAINMENT, GIFT AND CAR EXPENSES.

Car Expenses

If you use a car for business only, you may base your deduction on the full cost of operating it. If you use the car for both business and personal purposes, you must divide your expenses between those uses on the basis of mileage. Do not include commuting to and from work as business mileage.

You may take a deduction for your actual business expenses for the car, or use a standard mileage rate. Under either system, parking fees and tolls are deductible. Actual business expenses include gas, oil, repairs, insurance, depreciation, tires and license plates. In 2001, the standard mileage rate is 34.5¢ per business mile.

For more information, refer to Publication 463 and Publication 946, *HOW TO DEPRECIATE PROPERTY*.

Business Use of Your Home

If you use part of your home in your business, you may be able to claim part of the expenses of maintaining your home as a business expense. These expenses include mortgage interest, insurance, utilities, repairs and depreciation. The business use of your home must meet certain requirements before you can take any of these expenses as business deductions. Special rules apply if you use part of your home as a day care center or to store inventory.

If you are self-employed, use Schedule C (Form 1040) and Form 8829, *EXPENSES FOR BUSINESS USE OF YOUR HOME*, to deduct your expenses for business use of your home. An employee must use Schedule A (Form 1040), to itemize this deduction. For more information, see Publication 587, *BUSINESS USE OF YOUR HOME*, and Lesson 4 in this workbook.

Retirement Plans

If you establish a retirement arrangement for yourself or any employees you have, you may be able to take a deduction for your contributions to the plan. The plans discussed here are popular among people with small businesses.

As a plan for yourself, you can establish a traditional individual retirement arrangement (IRA) or the new Roth IRA. If you are a sole proprietor or a member of a partnership, you can have a self-employed plan. You are not taxed on certain amounts you pay into the plan, or on the plan's earnings, until they are distributed to you in future years. If you have employees, you usually include them in your plan.

If you have employees, they can set up simplified employee pensions (SEPs). A SEP is a kind of IRA that was designed for

small employers and has very few administrative burdens or costs. You make the contributions for your employees and deduct certain payments you make to it.

Generally, you can set up a savings incentive match for employees called a SIMPLE plan if you have 100 or fewer employees and meet several other requirements. Under this plan, the employer makes contributions to employees' IRAs. The two types of plans are the SIMPLE IRA and SIMPLE 401(k).

For more information, see Publication 590, **INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs) AND QUALIFIED PLANS** and Publication 560, **RETIREMENT PLANS FOR SMALL BUSINESS (SEP, SIMPLE AND QUALIFIED PLANS)**.

Health Insurance Deduction for the Self-Employed

You may be able to deduct 60% of the amount you paid for medical insurance for yourself and your family. You deduct this amount on line 28 of Form 1040 (2000). For more information, see Chapter 7 in Publication 535, **BUSINESS EXPENSES**.

Business Start-Up Costs

Start-up costs are those expenses that you have in connection with setting up an active trade or business, or for investigating the possibility of creating or acquiring an active trade or business. Generally, you can amortize these costs over a 60-month period. For more information, see Publication 535.

Depreciation and Section 179 Deduction

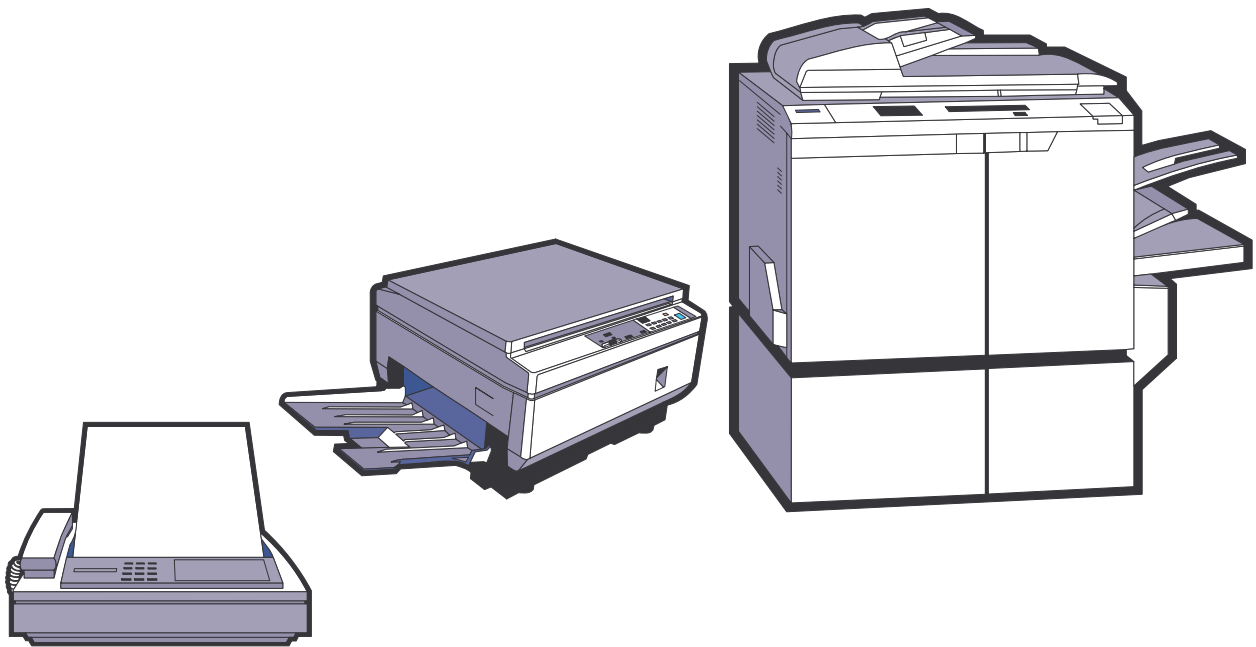
Depreciation of Business Property

If you buy business property that has a life of more than 1 year, you may deduct its cost or other basis over a number of years. This practice is called depreciation. Do not depreciate land, inventory and property you placed in service and disposed of in the same year.

You can depreciate property that meets all of the following basic requirements:

- the property must be used in business or held for the production of income,
- the property must have a determinable useful life which must be longer than one year, and
- the property must be something that wears out, decays, gets used up, becomes obsolete or loses value from natural causes.

The method for depreciating most tangible property placed in service after 1986 is called the Modified Accelerated Cost Recovery System (MACRS). Note: Tangible property is any property that can be seen or touched, like buildings, cars, machinery or equipment. MACRS is discussed in detail in Publication 946.



Section 179 Deduction

You can choose to deduct a limited amount (for 2000, up to \$20,000; for 2001 and 2002, up to \$24,000) of the cost of certain depreciable property in the year you buy it for use in your business. This deduction is known as the “section 179 deduction.”

Use Form 4562, DEPRECIATION AND AMORTIZATION, to figure your section 179 deduction. Publication 946 explains what costs you can and cannot deduct, how to figure the deduction and when to recapture the deduction.

For more information on credits and deductions, see Publication 535, or the specific publication for the deduction or credit you want to take. (See Tax Publications and Forms at the end of this lesson.)

EXHIBIT 1.11 - PROFIT OR LOSS AND DISTRIBUTION OF INCOME COMPARISON

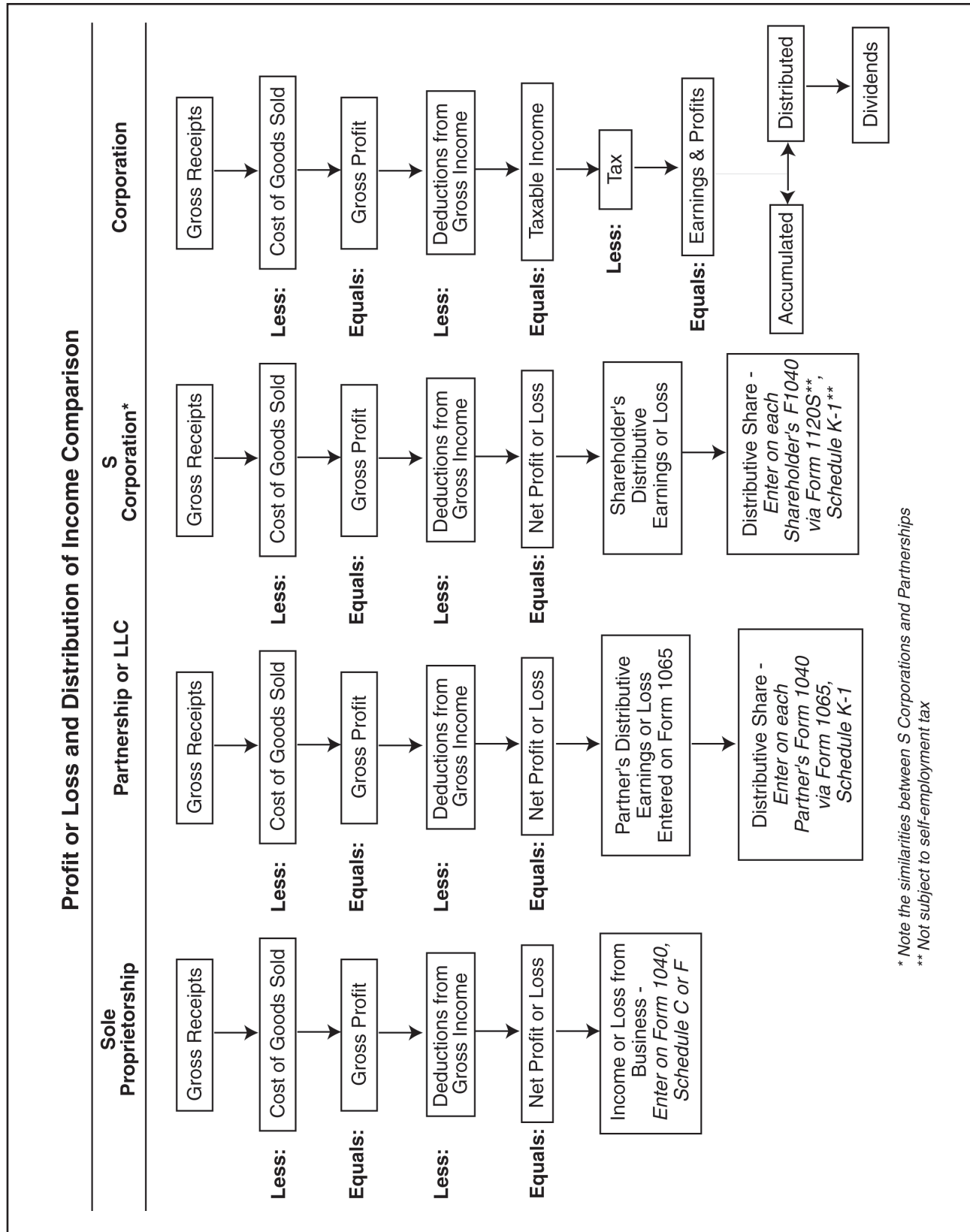


EXHIBIT 1.12 - BUSINESS REQUIREMENTS AT A GLANCE

If you're a:	You may be liable for:	Use form:
Sole Proprietor or single member LLC	Income Tax	1040, Sch. C ¹ or C-EZ
	Self-employment tax	1040, Sch. SE
	Estimated tax	1040-ES
	Employment taxes: • Social security, Medicare, income tax withholding • Federal Unemployment (FUTA) Tax • Depositing employment taxes	941 940 or 940-EZ 8109 ²
Partnership or LLC	Annual return of income	1065, Sch. K-1
	Employment taxes	Same as sole proprietor
Partner in a partnership (individual)	Income tax	1040 and Sch. E ³
	Self-employment tax	1040 and Sch. SE
	Estimated tax	1040-ES
Corporation or S Corporation	Income tax	1120 or 1120-A (corp.) 1120S (S Corporation)
	Estimated tax	1120-W (corp. only and 8109)
	Employment taxes	Same as sole proprietor
S Corporation shareholder	Income tax	1040 and Sch. E ³
	Estimated tax	1040-ES
¹ File a separate schedule for each business. ² Do not use if you deposit taxes electronically. ³ Various other schedules may be needed.		

Tax Publications and Forms

All IRS forms and publications can be downloaded from the INTERNET at www.irs.gov/prod/forms_pubs/index.html or ordered free by calling **1-800-829-3676**. Or, you can buy a CD-ROM of current and prior year tax forms and publications from the National Technical Information Service (toll free at 1-877-233-6767 or on-line at www.irs.gov/cdorders. You can also get forms via fax. (From your fax machine dial **703-368-9694**.) (See page i in the Introduction for more information.)

The following are the most popular business publications and related forms:

Publication 1, YOUR RIGHTS AS A TAXPAYER

Publication 15, Circular E, EMPLOYER'S TAX GUIDE

Forms 940, 941

Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE

Publication 15-B, EMPLOYER'S TAX GUIDE TO FRINGE BENEFITS

PUBLICATION 15-T, NEW WITHHOLDING TABLES FOR 2001 (FOR WAGES PAID AFTER JUNE 30, 2001)

Publication 51, Circular A, AGRICULTURAL EMPLOYER'S TAX GUIDE

Form 943

Publication 225, FARMER'S TAX GUIDE

Forms 1040 (Schedules A, D, F, J, SE), 4136, 4562, 4684, 4797, 6251

Publication 334, TAX GUIDE FOR SMALL BUSINESS
(FOR INDIVIDUALS WHO USE SCHEDULE C OR C-EZ)

Form 1040 (Schedules C, C-EZ)

Publication 378, FUEL TAX CREDITS AND REFUNDS

Forms 720, 4136, 8849

Publication 463, TRAVEL, ENTERTAINMENT, GIFT AND CAR EXPENSES

Forms 2106, 2106EZ

Publication 505, TAX WITHHOLDING AND ESTIMATED TAX

Forms 1040-ES, 2210, 2210F, W-4, W-4P

Publication 509, TAX CALENDARS FOR 2000

Publication 510, EXCISE TAXES FOR 2000

Forms 11-C, 637, 720, 730, 6197, 6627

Publication 533, SELF-EMPLOYMENT TAX

Form 1040 (Schedule SE)

Publication 534, DEPRECIATING PROPERTY PLACED IN SERVICE BEFORE 1987

Form 4562

Publication 535, BUSINESS EXPENSES

Publication 536, NET OPERATING LOSSES

Form 1045

Publication 537, INSTALLMENT SALES

Form 6252

Publication 538, ACCOUNTING PERIODS AND METHODS

Publication 541, PARTNERSHIPS

Form 1065 (Schedule K-1)

Publication 542, CORPORATIONS

Forms 1120, 1120-A

Publication 544, SALES AND OTHER DISPOSITIONS OF ASSETS

Form 1040 (Schedule D), 4797, 8824

Publication 547, CASUALTIES, DISASTERS AND THEFTS

(BUSINESS & NON-BUSINESS)

Publication 551, BASIS OF ASSETS

Publication 552, RECORDKEEPING FOR INDIVIDUALS

Publication 553, HIGHLIGHTS OF 2000 TAX CHANGES

Publication 556, EXAMINATION OF RETURNS, APPEAL RIGHTS AND
CLAIMS FOR REFUND

Publication 557, TAX-EXEMPT STATUS FOR YOUR ORGANIZATIONS

Forms 990, 990-EZ, 990-PF, 1023, 1024

Publication 560, RETIREMENT PLANS FOR SMALL BUSINESS

Forms 5305-SEP, 5304-SIMPLE, 5305-SIMPLE and 5500EZ

Publication 564, MUTUAL FUND DISTRIBUTIONS

Forms 1040, (Schedules B, D), 1099-DIV

Publication 575, PENSION AND ANNUITY INCOME

Forms 1040, 1040A, 1099-R, 4972

Publication 583, STARTING A BUSINESS AND KEEPING RECORDS

Publication 587, BUSINESS USE OF YOUR HOME

(INCLUDING USE BY DAY-CARE PROVIDERS)

Form 8829

Publication 590, INDIVIDUAL RETIREMENT ARRANGEMENTS (IRAs)

(INCLUDING ROTH IRAs AND EDUCATION IRAs)

Forms 1040, 1040A, 1099-R, 5329, 8606

Publication 594, THE IRS COLLECTION PROCESS

Publication 595, TAX HIGHLIGHTS FOR COMMERCIAL FISHERMEN

Forms 1040 (Schedule C), 1099-MISCPublication 598, TAX ON UNRELATED BUSINESS INCOME OF
EXEMPT ORGANIZATIONS**Form 990-T**

Publication 908, BANKRUPTCY TAX GUIDE

Forms 982, 1040, 1041

Publication 910, GUIDE TO FREE TAX SERVICES

Publication 911, DIRECT SELLERS

Form 1040 (Schedules C, SE)

Publication 925, PASSIVE ACTIVITY AND AT-RISK RULES

Form 8582

Publication 939, GENERAL RULE FOR PENSIONS AND ANNUITIES

Publication 946, HOW TO DEPRECIATE PROPERTY

Form 4562

Publication 947, PRACTICE BEFORE THE IRS AND POWER OF ATTORNEY

Forms 2848, 8821

Publication 1244, EMPLOYEE'S DAILY RECORD OF TIPS AND
REPORT TO EMPLOYERS

Forms 4070, 4070-A

Publication 1518, TAX CALENDAR FOR SMALL BUSINESS

Publication 1542, PER DIEM RATES

Publication 1544, REPORTING CASH PAYMENTS OF OVER \$10,00
(RECEIVED IN A TRADE OR BUSINESS)

Form 8300

Publication 1546, THE TAXPAYER ADVOCATE SERVICE OF THE IRS

Publication 1853, SMALL BUSINESS TALK

Lesson 2

Employment Taxes

Introduction

This lesson introduces federal employment taxes. It briefly explains your responsibilities as an employer to withhold and pay these taxes, and it gives other related information. Employment taxes represent the income tax and social security and Medicare taxes (FICA taxes) withheld from the wages of an employee plus the employer's share of social security taxes and employer-paid federal unemployment (FUTA) taxes. The withheld (employee's) portion of employment taxes is referred to as "trust fund" taxes.



Objectives

At the end of this lesson you will be able to:

1. Determine an employer's responsibility for Income tax withholding, social security and Medicare (FICA) taxes and federal unemployment (FUTA) taxes.
2. Determine the need for various forms related to employment taxes.
3. Determine the need for forms related to non-employee/miscellaneous payments.

Employer Identification Number (EIN)

When you start or buy a business, you may need to apply for an EIN to identify the tax returns of your business. If you don't already have an EIN, you need to get one if you:

- pay wages to employees,
- are required to withhold taxes for nonwage payments,
- have a self-employed retirement plan,
- operate your business as a corporation, partnership or
- file any of these tax returns:
 - employment,
 - excise,
 - fiduciary or
 - alcohol, tobacco and firearms.

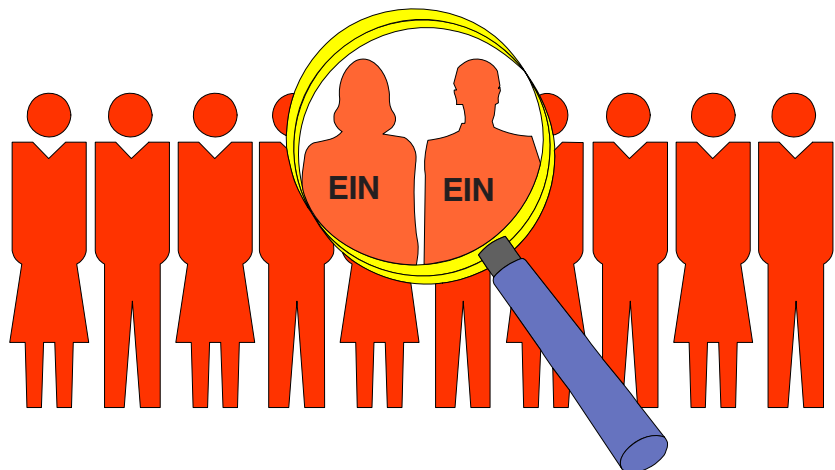


***Note:** If you are a sole proprietor with no employees and none of the listed filing requirements, you do not need an EIN. If you need a number solely to identify your business's bank account, do not apply for an EIN but use your social security number (SSN) instead. This will save both you and the IRS paperwork and unnecessary correspondence.*

Form SS-4

If you have not applied for an EIN and you are required to have one, you should obtain Form SS-4, APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER, from the IRS. (See Exhibit 2.1.) The completed application should be mailed to the Internal Revenue Service Center where you file your federal tax returns.

Use your EIN on all the items you send to the IRS and SSA.



You should have only one EIN for yourself as a sole proprietor. For example, if you operate more than one sole proprietorship, you must use the same number for each. If you take over another employer's sole proprietorship, do not use that employer's EIN. If you have an EIN, use it. If not, apply for one.

Once you have received an EIN, you can use it from one year to the next. If you change your business from a sole proprietorship, for example, to a corporation or partnership, apply for a new EIN. If you haven't received your number by the time a return is due, write "Applied for" and the date applied for in the EIN space.

Note: Each separate partnership and corporation must have its own EIN.

Fill out the SS-4 with the information requested in each box that applies.

Because it takes several weeks to receive an EIN after the Form SS-4 is filed, apply for your EIN well before your tax returns are due. You may be able to obtain an EIN sooner by telephone or fax. See the instructions for Form SS-4 and Publication 1635, UNDERSTANDING YOUR EIN, for more information.

Form SS-4 (Rev. April 2000) Department of the Treasury Internal Revenue Service	Application for Employer Identification Number (For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, certain individuals, and others. See instructions.) ► Keep a copy for your records.	EIN _____ OMB No. 1545-0003
---	--	--------------------------------

Please type or print clearly.	1 Name of applicant (legal name) (see instructions)	
	2 Trade name of business (if different from name on line 1)	3 Executor, trustee, "care of" name
	4a Mailing address (street address) (room, apt., or suite no.)	5a Business address (if different from address on lines 4a and 4b)
	4b City, state, and ZIP code	5b City, state, and ZIP code
	6 County and state where principal business is located	
	7 Name of principal officer, general partner, grantor, owner, or trustor—SSN or ITIN may be required (see instructions) ► _____	

8a Type of entity (Check only one box.) (see instructions)
Caution: If applicant is a limited liability company, see the instructions for line 8a.

☐ Sole proprietor (SSN) _____	☐ Estate (SSN of decedent) _____
☐ Partnership	☐ Personal service corp. _____
☐ REMIC	☐ Plan administrator (SSN) _____
☐ State/local government	☐ National Guard
☐ Church or church-controlled organization	☐ Farmers' cooperative
☐ Other nonprofit organization (specify) ► _____	☐ Other corporation (specify) ► _____
☐ Other (specify) ► _____	☐ Trust
	☐ Federal government/military
	(enter GEN if applicable) _____

8b If a corporation, name the state or foreign country (if applicable) where incorporated	State _____	Foreign country _____
--	-------------	-----------------------

9 Reason for applying (Check only one box.) (see instructions)

☐ Started new business (specify type) ► _____	☐ Banking purpose (specify purpose) ► _____
☐ Hired employees (Check the box and see line 12.)	☐ Changed type of organization (specify new type) ► _____
☐ Created a pension plan (specify type) ► _____	☐ Purchased going business
	☐ Created a trust (specify type) ► _____
	☐ Other (specify) ► _____

10 Date business started or acquired (month, day, year) (see instructions)	11 Closing month of accounting year (see instructions)
---	---

12 First date wages or annuities were paid or will be paid (month, day, year). **Note:** If applicant is a withholding agent, enter date income will first be paid to nonresident alien. (month, day, year)

13 Highest number of employees expected in the next 12 months. Note: If the applicant does not expect to have any employees during the period, enter -0-. (see instructions)	Nonagricultural	Agricultural	Household
--	-----------------	--------------	-----------

14 Principal activity (see instructions) ► _____

15 Is the principal business activity manufacturing? ☐ Yes ☐ No
 If "Yes," principal product and raw material used ► _____

16 To whom are most of the products or services sold? Please check one box. ☐ Business (wholesale) ☐ N/A
☐ Public (retail) ☐ Other (specify) ► _____

17a Has the applicant ever applied for an employer identification number for this or any other business? ☐ Yes ☐ No
Note: If "Yes," please complete lines 17b and 17c.

17b If you checked "Yes" on line 17a, give applicant's legal name and trade name shown on prior application, if different from line 1 or 2 above.
 Legal name ► _____ Trade name ► _____

17c Approximate date when and city and state where the application was filed. Enter previous employer identification number if known.
 Approximate date when filed (mo., day, year) City and state where filed _____ Previous EIN _____

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete. Name and title (Please type or print clearly.) ► _____ Signature ► _____ Date ► _____	Business telephone number (include area code) ()
	Fax telephone number (include area code) ()

Note: Do not write below this line. For official use only.				
Please leave blank ►	Geo.	Ind.	Class	Size Reason for applying

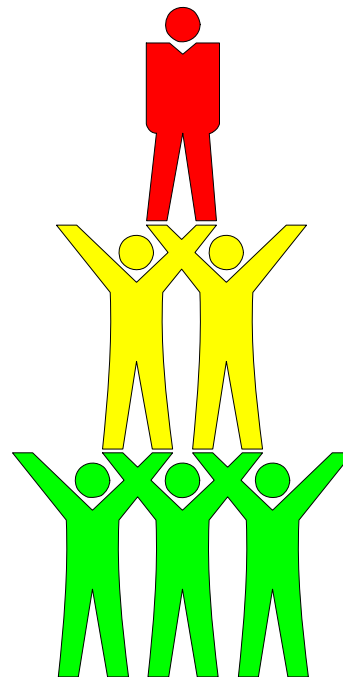
For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 16055N Form **SS-4** (Rev. 4-2000)

Employer/Employees

It is important to know whether you are considered an employer for tax purposes. A person or organization may be an employer for purposes of one kind of tax but not for another. A person who works for you may be classified as a common-law employee, a statutory employee or an independent contractor. The classification of the person determines which forms you must file or which taxes you must pay and deposit requirements. For more information on these classifications, see Publication 15-A, *EMPLOYER'S SUPPLEMENTAL TAX GUIDE*.

Generally, anyone who performs services for you is your employee if you can control what will be done and how it will be done. This is so even when you give the employee freedom of action. What matters is that you have the right to control the details of how the services are performed. Publication 15-A has more information on how to determine whether an individual providing services is an independent contractor or an employee.

To get a determination from the IRS as to whether or not a worker is an employee, file Form SS-8, *DETERMINATION OF EMPLOYEE WORK STATUS FOR PURPOSES OF FEDERAL EMPLOYMENT TAXES AND INCOME TAX WITHHOLDING*, with your district IRS office.



EMPLOYER

EMPLOYEES:

- **Common Law**
- **Statutory**

**INDEPENDENT
CONTRACTOR**

Independent Contractors

An *independent contractor* performs services for you, but is not under your direct control. Generally, people in business for themselves are not employees. For example, doctors, lawyers, veterinarians, construction contractors and others in an independent trade in which they offer their services to the public are usually not employees. However, whether such people are employees or independent contractors depends on the facts in each case. The general rule is that an individual is an independent contractor if you, the employer, have the right to control or direct only the result of the work and not the means and methods of accomplishing the result.

See Publication 15-A for more information.

Form W-4

To know how much federal income tax to withhold from an employee's wages, you should have a Form W-4, EMPLOYEE'S WITHHOLDING ALLOWANCE CERTIFICATE, on file for each employee. The amount to be withheld is determined by the employee's gross wages and the information submitted by the employee on Form W-4. (See Exhibit 2.2.)

This information includes:

- employee's marital status;
- number of withholding allowances claimed;
- employee's request to have additional tax withheld or
- employee's claim to exemption from withholding.

Ask each new employee to give you a signed Form W-4 by his or her first day of work. This certificate is effective with the first wage payment and will last until the employee files a new certificate.

If an employee does not give you a Form W-4, withhold tax as if the employee were a single person who has claimed no withholding allowances. If not enough tax is withheld and your employee has not provided a Form W-4 or has claimed an exemption from withholding, he or she may be subject to penalties. An employee who claims exemption from withholding must renew his or her status by filing a new Form W-4 with you by February 15 of each year.

Note: Student status does not automatically exempt the employee from income tax withholding.

Generally, Forms W-4 are for your records. They need not be sent to IRS unless:

- the employee claims more than 10 withholding allowances or
- the employee normally earns more than \$200 per week and claims *exemption from withholding* on Line 7.

For more information on withholding, see Publication 505, TAX WITHHOLDING AND ESTIMATED TAX. You can help your employees determine whether they are having the right amount of income tax withheld by ordering copies of Publication 919, HOW DO I ADJUST MY TAX WITHHOLDING?

EXHIBIT 2.2 - BLANK FORM W-4, PAGE 1

Form W-4 (2001)

Purpose. Complete Form W-4 so your employer can withhold the correct Federal income tax from your pay. Because your tax situation may change, you may want to refigure your withholding each year.

Exemption from withholding. If you are exempt, complete only lines 1, 2, 3, 4, and 7, and sign the form to validate it. Your exemption for 2001 expires February 18, 2002.

Note: You cannot claim exemption from withholding if (1) your income exceeds \$750 and includes more than \$250 of unearned income (e.g., interest and dividends) and (2) another person can claim you as a dependent on their tax return.

Basic instructions. If you are not exempt, complete the **Personal Allowances Worksheet** below. The worksheets on page 2 adjust your withholding allowances based on itemized deductions, certain credits, adjustments to

income, or two-earner/two-job situations. Complete all worksheets that apply. They will help you figure the number of withholding allowances you are entitled to claim. **However, you may claim fewer (or zero) allowances.**

Head of household. Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals. See line E below.

Tax credits. You can take projected tax credits into account in figuring your allowable number of withholding allowances. Credits for child or dependent care expenses and the child tax credit may be claimed using the **Personal Allowances Worksheet** below. See Pub. 919, How Do I Adjust My Tax Withholding? for information on converting your other credits into withholding allowances.

Nonwage income. If you have a large amount of nonwage income, such as interest or dividends,

consider making estimated tax payments using **Form 1040-ES**, Estimated Tax for Individuals. Otherwise, you may owe additional tax.

Two earners/two jobs. If you have a working spouse or more than one job, figure the total number of allowances you are entitled to claim on all jobs using worksheets from only one Form W-4. Your withholding usually will be most accurate when all allowances are claimed on the Form W-4 for the highest paying job and zero allowances are claimed on the others.

Check your withholding. After your Form W-4 takes effect, use Pub. 919 to see how the dollar amount you are having withheld compares to your projected total tax for 2001. Get Pub. 919 especially if you used the **Two-Earner/Two-Job Worksheet** on page 2 and your earnings exceed \$150,000 (Single) or \$200,000 (Married).

Recent name change? If your name on line 1 differs from that shown on your social security card, call 1-800-772-1213 for a new social security card.

Personal Allowances Worksheet (Keep for your records.)

A Enter "1" for yourself if no one else can claim you as a dependent **A** _____

B Enter "1" if:
 • You are single and have only one job; or
 • You are married, have only one job, and your spouse does not work; or
 • Your wages from a second job or your spouse's wages (or the total of both) are \$1,000 or less. **B** _____

C Enter "1" for your spouse. But, you may choose to enter -0- if you are married and have either a working spouse or more than one job. (Entering -0- may help you avoid having too little tax withheld.) **C** _____

D Enter number of dependents (other than your spouse or yourself) you will claim on your tax return **D** _____

E Enter "1" if you will file as head of household on your tax return (see conditions under Head of household above) **E** _____

F Enter "1" if you have at least \$1,500 of child or dependent care expenses for which you plan to claim a credit **F** _____

(Note: Do not include child support payments. See Pub. 503, Child and Dependent Care Expenses, for details.)

G Child Tax Credit (including additional child tax credit):
 • If your total income will be between \$18,000 and \$50,000 (\$23,000 and \$63,000 if married), enter "1" for each eligible child.
 • If your total income will be between \$50,000 and \$80,000 (\$63,000 and \$115,000 if married), enter "1" if you have two eligible children, enter "2" if you have three or four eligible children, or enter "3" if you have five or more eligible children. **G** _____

H Add lines A through G and enter total here. (Note: This may be different from the number of exemptions you claim on your tax return.) **H** _____

For accuracy, complete all worksheets that apply.
 • If you plan to itemize or claim adjustments to income and want to reduce your withholding, see the **Deductions and Adjustments Worksheet** on page 2.
 • If you are single, have more than one job and your combined earnings from all jobs exceed \$35,000, or if you are married and have a working spouse or more than one job and the combined earnings from all jobs exceed \$60,000, see the **Two-Earner/Two-Job Worksheet** on page 2 to avoid having too little tax withheld.
 • If neither of the above situations applies, stop here and enter the number from line H on line 5 of Form W-4 below.

----- Cut here and give Form W-4 to your employer. Keep the top part for your records. -----

Form W-4 Department of the Treasury Internal Revenue Service		Employee's Withholding Allowance Certificate ▶ For Privacy Act and Paperwork Reduction Act Notice, see page 2.		OMB No. 1545-0010 2001
1 Type or print your first name and middle initial		Last name		2 Your social security number
Home address (number and street or rural route)		3 ☐ Single ☐ Married ☐ Married, but withhold at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the Single box.		
City or town, state, and ZIP code		4 If your last name differs from that on your social security card, check here. You must call 1-800-772-1213 for a new card. ☐		
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)				5
6 Additional amount, if any, you want withheld from each paycheck				6 \$
7 I claim exemption from withholding for 2001, and I certify that I meet both of the following conditions for exemption:				
• Last year I had a right to a refund of all Federal income tax withheld because I had no tax liability and • This year I expect a refund of all Federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here				
Under penalties of perjury, I certify that I am entitled to the number of withholding allowances claimed on this certificate, or I am entitled to claim exempt status.				
Employee's signature (Form is not valid unless you sign it.) ▶				
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		9 Office code (optional)		10 Employer identification number

Cat. No. 10220Q

EXHIBIT 2.2 - BLANK FORM W-4, PAGE 2

Form W-4 (2001)
Page 2

Deductions and Adjustments Worksheet

Note: Use this worksheet only if you plan to itemize deductions, claim certain credits, or claim adjustments to income on your 2001 tax return.

- 1 Enter an estimate of your 2001 itemized deductions. These include qualifying home mortgage interest, charitable contributions, state and local taxes, medical expenses in excess of 7.5% of your income, and miscellaneous deductions. (For 2001, you may have to reduce your itemized deductions if your income is over \$132,950 (\$66,475 if married filing separately). See **Worksheet 3** in Pub. 919 for details.) 1 \$ _____
- 2 Enter:

\$7,600 if married filing jointly or qualifying widow(er)
 \$6,650 if head of household
 \$4,550 if single
 \$3,800 if married filing separately

2 \$ _____
- 3 Subtract line 2 from line 1. If line 2 is greater than line 1, enter -0- 3 \$ _____
- 4 Enter an estimate of your 2001 adjustments to income, including alimony, deductible IRA contributions, and student loan interest 4 \$ _____
- 5 Add lines 3 and 4 and enter the total (Include any amount for credits from **Worksheet 7** in Pub. 919.) 5 \$ _____
- 6 Enter an estimate of your 2001 nonwage income (such as dividends or interest) 6 \$ _____
- 7 Subtract line 6 from line 5. Enter the result, but not less than -0- 7 \$ _____
- 8 Divide the amount on line 7 by \$3,000 and enter the result here. Drop any fraction 8 _____
- 9 Enter the number from the **Personal Allowances Worksheet**, line H, page 1 9 _____
- 10 Add lines 8 and 9 and enter the total here. If you plan to use the **Two-Earner/Two-Job Worksheet**, also enter this total on line 1 below. Otherwise, stop here and enter this total on Form W-4, line 5, page 1 10 _____

Two-Earner/Two-Job Worksheet

Note: Use this worksheet only if the instructions under line H on page 1 direct you here.

- 1 Enter the number from line H, page 1 (or from line 10 above if you used the **Deductions and Adjustments Worksheet**) 1 _____
- 2 Find the number in **Table 1** below that applies to the lowest paying job and enter it here 2 _____
- 3 If line 1 is more than or equal to line 2, subtract line 2 from line 1. Enter the result here (if zero, enter -0-) and on Form W-4, line 5, page 1. Do not use the rest of this worksheet 3 _____

Note: If line 1 is less than line 2, enter -0- on Form W-4, line 5, page 1. Complete lines 4-9 below to calculate the additional withholding amount necessary to avoid a year end tax bill.

- 4 Enter the number from line 2 of this worksheet 4 _____
- 5 Enter the number from line 1 of this worksheet 5 _____
- 6 Subtract line 5 from line 4 6 _____
- 7 Find the amount in **Table 2** below that applies to the highest paying job and enter it here 7 \$ _____
- 8 Multiply line 7 by line 6 and enter the result here. This is the additional annual withholding needed 8 \$ _____
- 9 Divide line 8 by the number of pay periods remaining in 2001. For example, divide by 26 if you are paid every two weeks and you complete this form in December 2000. Enter the result here and on Form W-4, line 6, page 1. This is the additional amount to be withheld from each paycheck 9 \$ _____

Table 1: Two-Earner/Two-Job Worksheet

Married Filing Jointly				All Others			
If wages from LOWEST paying job are-	Enter on line 2 above	If wages from LOWEST paying job are-	Enter on line 2 above	If wages from LOWEST paying job are-	Enter on line 2 above	If wages from LOWEST paying job are-	Enter on line 2 above
\$0 - \$4,000	0	42,001 - 47,000	8	\$0 - \$5,000	0	65,001 - 80,000	8
4,001 - 8,000	1	47,001 - 55,000	9	6,001 - 12,000	1	80,001 - 105,000	9
8,001 - 14,000	2	55,001 - 65,000	10	12,001 - 17,000	2	105,001 and over	10
14,001 - 19,000	3	65,001 - 70,000	11	17,001 - 22,000	3		
19,001 - 25,000	4	70,001 - 90,000	12	22,001 - 28,000	4		
25,001 - 32,000	5	90,001 - 105,000	13	28,001 - 40,000	5		
32,001 - 38,000	6	105,001 - 115,000	14	40,001 - 50,000	6		
38,001 - 42,000	7	115,001 and over	15	50,001 - 65,000	7		

Table 2: Two-Earner/Two-Job Worksheet

Married Filing Jointly		All Others	
If wages from HIGHEST paying job are-	Enter on line 7 above	If wages from HIGHEST paying job are-	Enter on line 7 above
\$0 - \$50,000	\$440	\$0 - \$30,000	\$440
50,001 - 100,000	800	30,001 - 60,000	800
100,001 - 130,000	900	60,001 - 120,000	900
130,001 - 250,000	1,000	120,001 - 270,000	1,000
250,001 and over	1,100	270,001 and over	1,100

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. The Internal Revenue Code requires this information under sections 3402(f)(2)(A) and 6109 and their regulations. Failure to provide a properly completed form will result in your being treated as a single person who claims no withholding allowances; providing fraudulent information may also subject you to penalties. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, to cities, states, and the District of Columbia for use in administering their tax laws, and using it in the National Directory of New Hires.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 46 min.; **Learning about the law or the form**, 13 min.; **Preparing the form**, 59 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the tax form to this address. Instead, give it to your employer.



Form I-9

You must verify that each new employee is legally eligible to work in the United States. Both you and the employee must complete the Immigration and Naturalization Service (INS) Form I-9, EMPLOYMENT ELIGIBILITY VERIFICATION. (See Exhibit 2.3.) You can get the form from INS offices, by calling **1-800-829-3676** or by visiting the INS Web site at **www.ins.usdoj.gov**. Call the INS at **1-800-375-5283** for more information about your responsibilities.

EXHIBIT 2.3 - BLANK FORM I-9

U.S. Department of Justice Immigration and Naturalization Service		OMB No. 1115-0136	
Employment Eligibility Verification			
Please read instructions carefully before completing this form. The instructions must be available during completion of this form. ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work eligible individuals. Employers CANNOT specify which document(s) they will accept from an employee. The refusal to hire an individual because of a future expiration date may also constitute illegal discrimination.			
Section 1. Employee Information and Verification. To be completed and signed by employee at the time employment begins.			
Print Name: Last _____ First _____ Middle Initial _____		Maiden Name _____	
Address (Street Name and Number) _____		Apt. # _____	Date of Birth (month/day/year) _____
City _____	State _____	Zip Code _____	Social Security # _____
I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.		I attest, under penalty of perjury, that I am (check one of the following): ☐ A citizen or national of the United States ☐ A Lawful Permanent Resident (Alien # A _____) ☐ An alien authorized to work until ____/____/____ (Alien # or Admission #) _____	
Employee's Signature _____		Date (month/day/year) _____	
Preparer and/or Translator Certification. (To be completed and signed if Section 1 is prepared by a person other than the employee.) I attest, under penalty of perjury, that I have assisted in the completion of this form and that to the best of my knowledge the information is true and correct.			
Preparer's/Translator's Signature _____		Print Name _____	
Address (Street Name and Number, City, State, Zip Code) _____		Date (month/day/year) _____	
Section 2. Employer Review and Verification. To be completed and signed by employer. Examine one document from List A OR examine one document from List B and one from List C, as listed on the reverse of this form, and record the title, number and expiration date, if any, of the document(s)			
List A	OR	List B	AND List C
Document title: _____		_____	_____
Issuing authority: _____		_____	_____
Document #: _____		_____	_____
Expiration Date (if any): ____/____/____		____/____/____	____/____/____
Document #: _____		_____	_____
Expiration Date (if any): ____/____/____		_____	_____
CERTIFICATION - I attest, under penalty of perjury, that I have examined the document(s) presented by the above-named employee, that the above-listed document(s) appear to be genuine and to relate to the employee named, that the employee began employment on (month/day/year) ____/____/____ and that to the best of my knowledge the employee is eligible to work in the United States. (State employment agencies may omit the date the employee began employment.)			
Signature of Employer or Authorized Representative _____		Print Name _____ Title _____	
Business or Organization Name _____		Address (Street Name and Number, City, State, Zip Code) _____ Date (month/day/year) _____	
Section 3. Updating and Reverification. To be completed and signed by employer.			
A. New Name (if applicable) _____		B. Date of rehire (month/day/year) (if applicable) _____	
C. If employee's previous grant of work authorization has expired, provide the information below for the document that establishes current employment eligibility.			
Document Title: _____		Document #: _____ Expiration Date (if any): ____/____/____	
I attest, under penalty of perjury, that to the best of my knowledge, this employee is eligible to work in the United States, and if the employee presented document(s), the document(s) I have examined appear to be genuine and to relate to the individual.			
Signature of Employer or Authorized Representative _____		Date (month/day/year) _____	

Form I-9 (Rev. 11-21-91)N Page 2

Information Returns

Form 1099-MISC

You do not withhold income tax or social security and Medicare taxes from, or pay social security and Medicare taxes or federal unemployment tax, on amounts you pay an independent contractor/nonemployee. Generally, if you pay at least \$600 during the year to an independent contractor/nonemployee for services (including parts and materials) performed in the course of your business, you must furnish a Form 1099-MISC (Miscellaneous Income) to that person by January 31 of the following year. (See Exhibit 2.4.)

Note: *Do not report payments to corporations on Form 1099-MISC unless you are reporting payments for legal services to attorneys.*

EXHIBIT 2.4 - BLANK FORM 1099-MISC

9595 ☐ VOID ☐ CORRECTED		OMB No. 1545-0115		Miscellaneous Income
PAYER'S name, street address, city, state, and ZIP code		1 Rents	2001	
		\$	Form 1099-MISC	
PAYER'S Federal identification number		2 Royalties	4 Federal income tax withheld	
RECIPIENT'S identification number		\$	\$	
RECIPIENT'S name		3 Other income	5 Fishing boat proceeds	
Street address (including apt. no.)		\$	6 Medical and health care payments	
City, state, and ZIP code		7 Nonemployee compensation	8 Substitute payments in lieu of dividends or interest	
Account number (optional)		\$	9 Payer made direct sales of \$5,000 or more of consumer products to a buyer (recipient) for resale ☐	
2nd TIN not ☐		10 Crop insurance proceeds	11	
		12	13 Excess golden parachute payments	
		\$	14 Gross proceeds paid to an attorney	
		15	16 State tax withheld	
		\$	17 State/Payer's state no.	
		\$	18 State income	

Form 1099-MISC Cat. No. 14425J Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

You will need the social security number or EIN of an independent contractor in order to complete Form 1099-MISC. If the independent contractor is a sole proprietor, their SSN is preferred. Always ask the independent contractor to complete Form W-9, REQUEST FOR TAXPAYER IDENTIFICATION NUMBER AND CERTIFICATION, before beginning work. (See Exhibit 2.5.) If you do not obtain an SSN or EIN before you pay the contractor, you must withhold income tax from the payment. This is called *backup withholding*. Backup withholding rules require that

31% (30.5% after August 7, 2001) of the payment be withheld. Report the backup withholding on Form 945, ANNUAL RETURN OF WITHHELD FEDERAL INCOME TAX, discussed in Lesson 3.

EXHIBIT 2.5 - BLANK FORM W-9

Form W-9 (Rev. December 2000) Department of the Treasury Internal Revenue Service	Request for Taxpayer Identification Number and Certification	Give form to the requester. Do not send to the IRS.
Please print or type	Name (See Specific Instructions on page 2.)	
	Business name, if different from above. (See Specific Instructions on page 2.)	
	Check appropriate box: ☐ Individual/Sole proprietor ☐ Corporation ☐ Partnership ☐ Other ▶	
	Address (number, street, and apt. or suite no.)	Requester's name and address (optional)
	City, state, and ZIP code	
Part I Taxpayer Identification Number (TIN) Enter your TIN in the appropriate box. For individuals, this is your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the Part I instructions on page 2 . For other entities, it is your employer identification number (EIN). If you do not have a number, see How to get a TIN on page 2 . Note: If the account is in more than one name, see the chart on page 2 for guidelines on whose number to enter.		Part II For U.S. Payees Exempt From Backup Withholding (See the instructions on page 2.)
Social security number or Employer identification number		
Part III Certification Under penalties of perjury, I certify that:		
1. The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), and 2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding, and 3. I am a U.S. person (including a U.S. resident alien).		
Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the Certification, but you must provide your correct TIN. (See the instructions on page 2.)		
Sign Here	Signature of U.S. person ▶	Date ▶

Form W-2

Generally, by January 31, you must furnish a copy of Form W-2, WAGE AND TAX STATEMENT, to each employee to whom you paid wages during the year. (See Exhibit 2.6.)

Form W-2 must show total wages and other compensation paid (even if not subject to withholding); total wages subject to social security and Medicare taxes; allocated tips (if any); amounts deducted for income, social security and Medicare taxes; and the total advance earned income credit payment. In all cases, you must give each of your employees the statement by January 31 following the end of the calendar year covered. If not computer-generated,

every effort should be made to ensure that Forms W-2 provided to employees are legible.

If employment ends before the close of the year, the employee may request the form earlier. You must give the employee a Form W-2 within 30 days of the employee's request or final payment, whichever is later.

You should keep any undeliverable employee copies of Form W-2 (Copies B and C) as part of your records for 4 years.

EXHIBIT 2.6 - BLANK FORM W-2

a Control number	22222	Void ☐	For Official Use Only ▶ OMB No. 1545-0008					
b Employer identification number			1 Wages, tips, other compensation	\$	2 Federal income tax withheld	\$		
c Employer's name, address, and ZIP code			3 Social security wages	\$	4 Social security tax withheld	\$		
			5 Medicare wages and tips	\$	6 Medicare tax withheld	\$		
			7 Social security tips	\$	8 Allocated tips	\$		
d Employee's social security number			9 Advance EIC payment	\$	10 Dependent care benefits	\$		
e Employee's first name and initial	Last name		11 Nonqualified plans	\$	12a See instructions for box 12	\$		
			13 Subsidy employee ☐	Retirement plan ☐	Third-party sick pay ☐	12b \$		
			14 Other			12c \$		
						12d \$		
f Employee's address and ZIP code								
15 State Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name			
	\$	\$	\$	\$				
	\$	\$	\$	\$				

W-2 Wage and Tax Statement

2001

Form **W-2** Wage and Tax Statement

Copy A For Social Security Administration—Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable.

Cat. No. 10134D

Department of the Treasury—Internal Revenue Service

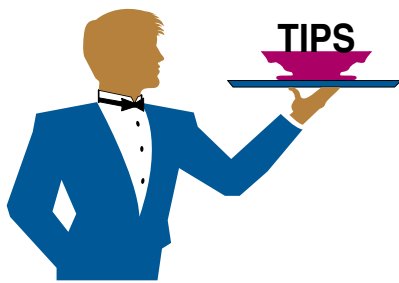
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Do Not Cut, Fold, or Staple Forms on This Page — Do Not Cut, Fold, or Staple Forms on This Page

Income Tax

The wages you pay your employees generally are subject to income tax withholding if their wages for any payroll period are more than the dollar amount of their withholding allowances for that period. The amount to be withheld is figured separately for each payroll period. Wages include all pay you give an employee for services performed. The pay may be in cash or in other forms. It includes salaries, vacation allowances, bonuses, commissions and fringe benefits not excluded by law. It does not matter how payments are measured or paid. Wages paid in any form other than money (such as goods, lodging and meals) are measured by the fair market value. See Publication 15, *EMPLOYER'S TAX GUIDE* (Circular E) for more information about income tax withholding and requirements to deposit withheld taxes.

Tipped Employees



Tips your employees receive are generally subject to withholding. Each employee who receives at least \$20 in tips in a month must report to you all tips they receive. This report must be made by the 10th day of each month following the month in which the tips are received. Tips that an employee receives directly from customers and tips that charge customers add to the bill and you pay to the employee must be reported. Your employee reports the tips on Form 4070, *EMPLOYEE'S REPORT OF TIPS TO EMPLOYER*, or a similar form. See Publication 1244, *EMPLOYEE'S DAILY RECORD OF TIPS AND REPORT TO EMPLOYER*, which includes Form 4070, for more information.

Note: There are special tip reporting requirements for large food and beverage establishments. These businesses provide food and beverages for consumption on the premises, tipping is customary, and they usually employ more than 10 employees on a typical business day. These rules affect only the reporting requirements.

All Employees

The income tax to be withheld is figured on gross wages before any deductions are made for social security and Medicare taxes, pension, union dues, insurance, etc. You may figure the withholding by different methods, the most common of which are the percentage method and the wage bracket tables method. Publication 15 contains the applicable tables and instructions for using both of these withholding methods, and it gives more information on reporting and withholding requirements on wages and tip income.

Social Security and Medicare Taxes

Under the Federal Insurance Contributions Act (FICA), you must withhold social security and Medicare taxes from wages that you pay your employees each payroll period.

Generally, meals, lodging, clothing, services and other payments in kind are subject to social security and Medicare taxes, as are wages paid in cash. However, meals are not taxable wages if furnished for the employer's convenience and on the employer's premises. Lodging is not taxable if furnished for the employer's convenience, on the employer's premises and as a condition of employment.

You, as an employer, must withhold and deposit the employee's part of the taxes and pay a matching amount. The social security tax is withheld from the employee's gross wages until the employee's cumulative wages for the year reach the wage base limit. Any wages above the wage base limit are not subject to social security tax withholding. However, there is no wage base limit for Medicare tax; **all covered wages are subject to Medicare tax.**

For 2001, the limit for wages subject to social security tax is \$80,400. The social security tax rate is 6.2% for the employee and 6.2% for the employer (12.4% total). The Medicare tax rate for the employee is 1.45% and 1.45% for the employer (2.9% total). This means that in 2001 you are to withhold employee social security and Medicare taxes at the total rate of 7.65% (6.2% up to \$80,400 plus 1.45% for all wages) and pay, or deposit, 15.30% (the total of the employee share and the employer's matching share of 7.65%).

Federal Unemployment Tax

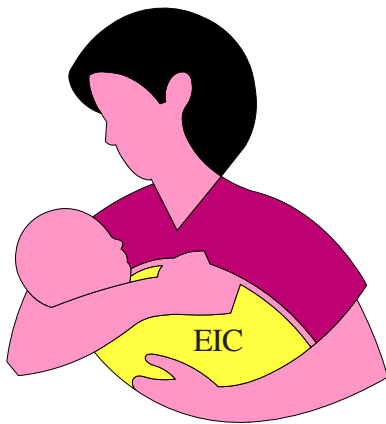
The Federal Unemployment Tax Act (FUTA) provides for the states and the Federal Government to cooperate in establishing and administering an unemployment tax program. Most employers pay both a federal and a state unemployment tax. The federal unemployment program was enacted to encourage the states to provide payment to workers who have lost their jobs. Only the employer pays FUTA tax; it is not deducted from an employee's wages.

For 2001, federal unemployment tax is figured on the first \$7,000 you pay to each employee during the year. See Publication 15 and the INSTRUCTIONS FOR FORM 940 for more information.

Successor Employer

If you acquired all or substantially all of the property used in the business of another employer, you may, in figuring the wage limit for social security and federal unemployment tax purposes, include the wages that employer paid to the employees who continue to work for you.

Earned Income Credit (EIC)



The EIC is a tax credit for certain workers whose earned income is below a certain level. Because it is a “credit,” the EIC is subtracted from the amount of tax owed. Even workers who have not filed a tax return in the previous year, because their wages were below the minimum income-level requirements to file, may be able to get the credit — but only if they file a tax return. Therefore, you must notify each employee who worked for you at any time during the year, and from whom you did not withhold any income tax, about the EIC. You will meet the notification requirements by giving the employee either Notice 797, POSSIBLE FEDERAL REFUND DUE TO THE EARNED INCOME CREDIT (EIC); your own written statement as long as it has the exact wording of Notice 797; or the official IRS Form W-2, WAGE AND TAX STATEMENT, which contains a statement on the back of Copy C. Exception: You do not need to notify those employees who claimed exemption from withholding on Form W-4, EMPLOYEE’S WITHHOLDING ALLOWANCE CERTIFICATE.

An employee who expects to earn less than \$28,281 in 2001 and has a qualifying child can receive advance payments of up to 60% of the maximum credit for one qualifying child. For 2001, this is \$1,457. To claim the advance EIC, eligible employees should fill out a Form W-5, EARNED INCOME CREDIT ADVANCE PAYMENT CERTIFICATE and return it to you. (See Exhibit 2.7.) You use the advance EIC tables in Publication 15 each payroll period to figure the correct amount of advance payment to include in the employee’s pay. The advance payment first reduces the withheld income tax and then the employee and employer social security and Medicare taxes, thereby reducing your total tax liability.

Reminder: Do not continue advance EIC payments to an employee on wages of \$28,281 or more in 2001.

For more information, see Publication 15.

Note: *In 2001, an employee’s advance EIC payments are limited to a total of \$1,457, although the credit may be more. They will have to claim any additional amount of EIC on their tax return.*

EXHIBIT 2.7 - BLANK FORM W-5

2001 Form W-5



Department of the Treasury
Internal Revenue Service

Instructions**Purpose**

Use Form W-5 if you are eligible to get part of the earned income credit (EIC) in advance with your pay and choose to do so. See **Who Is Eligible To Get Advance EIC Payments?** below. The amount you can get in advance generally depends on your wages. If you are married, the amount of your advance EIC payments also depends on whether your spouse has filed a Form W-5 with his or her employer. However, your employer cannot give you more than \$1,457 throughout 2001 with your pay. You will get the rest of any EIC you are entitled to when you file your tax return and claim the EIC.

If you do not choose to get advance payments, you can still claim the EIC on your 2001 tax return.

What Is the EIC?

The EIC is a credit for certain workers. It reduces the tax you owe. It may give you a refund even if you do not owe any tax.

Who Is Eligible To Get Advance EIC Payments?

You are eligible to get advance EIC payments if **all three** of the following apply.

1. You expect to have at least one qualifying child. If you do not expect to have a qualifying child, you may still be eligible for the EIC, but you **cannot** receive advance EIC payments. See **Who Is a Qualifying Child?** on page 2.
2. You expect that your 2001 earned income and modified AGI (adjusted gross income) will each be less than \$28,281. Include your spouse's income if you plan

to file a joint return. As used on this form, **earned income** does not include amounts inmates in penal institutions are paid for their work or workfare payments (defined on this page). For most people, **modified AGI** is the total of adjusted gross income plus any tax-exempt interest. But see the 2000 revision of **Pub. 596**, Earned Income Credit, for information about how to figure your 2001 modified AGI if you expect to receive nontaxable payments from a pension, annuity, or an IRA; or you plan to file a 2001 Form 1040.

3. You expect to be able to claim the EIC for 2001. To find out if you may be able to claim the EIC, answer the questions on page 2.

Workfare payments. These are cash payments certain people receive from a state or local agency that administers public assistance programs funded under the Federal Temporary Assistance for Needy Families (TANF) program in return for certain work activities such as (a) work experience activities (including work associated with remodeling or repairing publicly assisted housing) if sufficient private sector employment is not available or (b) community service program activities.

How To Get Advance EIC Payments

If you are eligible to get advance EIC payments, fill in the 2001 Form W-5 at the bottom of this page. Then, detach it and give it to your employer. If you get advance payments, you **must** file a 2001 Federal income tax return.

You may have only **one** Form W-5 in effect at one time. If you and your spouse are both employed, you should file separate Forms W-5.

(Continued on page 2)

Give the lower part to your employer; keep the top part for your records.

Detach here

Form **W-5**

Department of the Treasury
Internal Revenue Service
Print or type your full name

Earned Income Credit Advance Payment Certificate

- ▶ Use the current year's certificate only.
- ▶ Give this certificate to your employer.
- ▶ This certificate expires on December 31, 2001.

OMB No. 1545-1342

2001

Your social security number

Note: If you get advance payments of the earned income credit for 2001, you **must** file a 2001 Federal income tax return. To get advance payments, you **must** have a qualifying child and your filing status must be any status **except** married filing a separate return.

	Yes	No
1 I expect to be able to claim the earned income credit for 2001, I do not have another Form W-5 in effect with any other current employer, and I choose to get advance EIC payments		
2 Do you expect to have a qualifying child?		
3 Are you married?		
4 If you are married, does your spouse have a Form W-5 in effect for 2001 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ▶

Date ▶

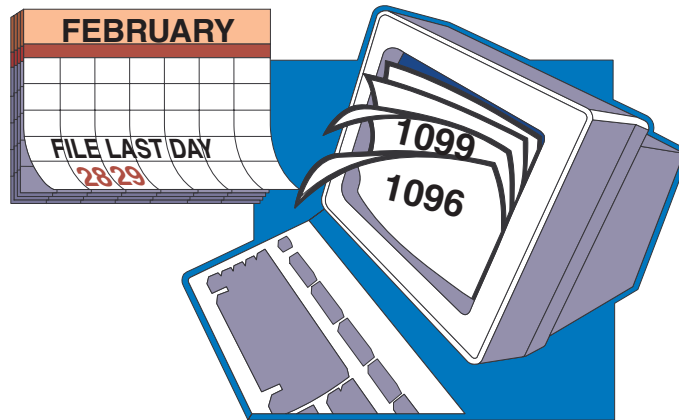
Cat. No. 10227P

Form W-3 and Form 1096

Each year, you must file Form W-3, TRANSMITTAL OF WAGE AND TAX STATEMENTS, in order to transmit Copy A of Forms W-2 to the Social Security Administration by the last day of February after the calendar year for which the Forms W-2 are prepared. The Social Security Administration will process these forms and provide the IRS with the income tax data that it needs from those forms. The mailing address for the forms is on the W-3.

Note: *The totals on the Form W-3 you file each year should equal the totals from all Forms 941 filed for the year.*

Form 1096 is used to transmit copies A of Forms 1099, 1098, 5498 and W-2G to the Internal Revenue Service. You must file Form 1096 with each type of return by February 28. If you file electronically, you may file by March 31.



In completing all transmittal documents (Forms W-3 and 1096) and information returns, you must use the same taxpayer identification number regardless of whether you file transmittals from more than one location. (See Exhibits 2.8 and 2.9.)

Use the same name on transmittals and information returns that you use on the income tax return or other returns you file under the same taxpayer identification number.

If information returns are prepared at different business locations, or if you are engaged in business with a “doing business as” (dba) name, there must be two name lines. The first name line contains the primary name (name shown on the income tax return). The second name line identifies the specific business location or is the “dba” name.

EXHIBIT 2.8 - BLANK FORM W-3

DO NOT STAPLE OR FOLD

a Control number		33333		For Official Use Only OMB No. 1545-0008	
b Kind of Payer	941 ☐	Military ☐	943 ☐	1 Wages, tips, other compensation	2 Federal income tax withheld
	CT-1 ☐	Hshld. emp. ☐	Medicare govt. emp. ☐	Third-party sick pay ☐	3 Social security wages
c Total number of Forms W-2		d Establishment number		4 Social security tax withheld	5 Medicare wages and tips
e Employer identification number				6 Medicare tax withheld	7 Social security tips
f Employer's name				8 Allocated tips	9 Advance EIC payments
				10 Dependent care benefits	11 Nonqualified plans
				12 Deferred compensation	13 For third-party sick pay use only
g Employer's address and ZIP code				14 Income tax withheld by payer of third-party sick pay	
h Other EIN used this year					
15 State		Employer's state ID number		16 State wages, tips, etc.	17 State income tax
				18 Local wages, tips, etc.	19 Local income tax
Contact person		Telephone number		For Official Use Only	
E-mail address		Fax number			

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature _____ Title _____ Date _____

Form **W-3 Transmittal of Wage and Tax Statements** **2001** Department of the Treasury
Internal Revenue Service

Send this entire page with the entire Copy A page of Form(s) W-2 to the Social Security Administration. Photocopies are not acceptable.

Do not send any payment (cash, checks, money orders, etc.) with Forms W-2 and W-3.

An Item To Note
Separate instructions. See the separate **2001 Instructions for Forms W-2 and W-3** for information on completing this form.

Purpose of Form
Use this form to transmit Copy A of Form(s) W-2, Wage and Tax Statement. Make a copy of Form W-3, and keep it with Copy D (For Employer) of Form(s) W-2 for your records. Use Form W-3 for the correct year. **File Form W-3 even if only one Form W-2 is being filed.** If you are filing Form(s) W-2 on magnetic media or electronically, **do not** file Form W-3.

When To File
File Form W-3 with Copy A of Form(s) W-2 by February 28, 2002.

Where To File
Send this entire page with the entire Copy A page of Form(s) W-2 to:

Social Security Administration
Data Operations Center
Wilkes-Barre, PA 18769-0001

Note: If you use "Certified Mail" to file, change the ZIP code to "18769-0002." If you use an IRS approved private delivery service, add "ATTN: W-2 Process, 1150 E. Mountain Dr." to the address and change the ZIP code to "18702-7997." See **Circular E, Employer's Tax Guide (Pub. 15)**, for a list of IRS approved private delivery services.

For Privacy Act and Paperwork Reduction Act Notice, see the 2001 Instructions for Forms W-2 and W-3.

Cat. No. 10159Y

EXHIBIT 2.9 - BLANK FORM 1096

Do Not Staple 6969		Form 1096 Department of the Treasury Internal Revenue Service		Annual Summary and Transmittal of U.S. Information Returns		OMB No. 1545-0108 2001	
FILER'S name Street address (including room or suite number) City, state, and ZIP code				For Official Use Only 			
Name of person to contact		Telephone number ()					
Fax number ()		E-mail address					
1 Employer identification number		2 Social security number		3 Total number of forms		4 Federal income tax withheld \$	
5 Total amount reported with this Form 1096 \$							
Enter an "X" in only one box below to indicate the type of form being filed. If this is your final return , enter an "X" here . . . ☐							
W-2G 32 ☐	1098 81 ☐	1098-E 84 ☐	1098-T 83 ☐	1099-A 80 ☐	1099-B 79 ☐	1099-C 85 ☐	1099-DIV 91 ☐
1099-G 86 ☐	1099-INT 92 ☐	1099-LTC 93 ☐	1099-MISC 95 ☐	1099-MSA 94 ☐	1099-OLD 96 ☐		
1099-PATR 97 ☐	1099-R 98 ☐	1099-S 75 ☐	5498 28 ☐	5498-MSA 27 ☐			

Please return this entire page to the Internal Revenue Service. Photocopies are not acceptable.

Under penalties of perjury, I declare that I have examined this return and accompanying documents, and, to the best of my knowledge and belief, they are true, correct, and complete.

Signature ►	Title ►	Date ►
-------------	---------	--------

Instructions

Purpose of form. Use this form to transmit paper Forms 1099, 1098, 5498, and W-2G to the Internal Revenue Service. **Do not use Form 1096 to transmit magnetic media.** See Form 4804, Transmittal of Information Returns Reported Magnetically/Electronically.

Who must file. The name, address, and TIN of the filer on this form must be the same as those you enter in the upper left area of Form 1099, 1098, 5498, or W-2G. A filer includes a payer, a recipient of mortgage interest payments (including points) or student loan interest, an educational institution, a broker, a barter exchange, a creditor, a person reporting real estate transactions, a trustee or issuer of any individual retirement arrangement or a medical savings account (MSA) (including a Medicare+Choice MSA), and a lender who acquires an interest in secured property or who has reason to know that the property has been abandoned.

Preadressed Form 1096. If you received a preaddressed Form 1096 from the IRS with Package 1099, use it to transmit paper Forms 1099, 1098, 5498, and W-2G to the Internal Revenue Service. If any of the imprinted information is incorrect, make corrections on the form.

Note: You will no longer receive an IRS-prepared label with your Package 1099.

If you are not using a preaddressed form, enter the filer's name, address (including room, suite, or other unit number), and TIN in the spaces provided on the form.

When to file. File Form 1096 with Forms 1099, 1098, or W-2G by February 28, 2002. File Form 1096 with Forms 5498 by May 31, 2002.

Where To File

Send all information returns filed on paper with Form 1096 to the following:

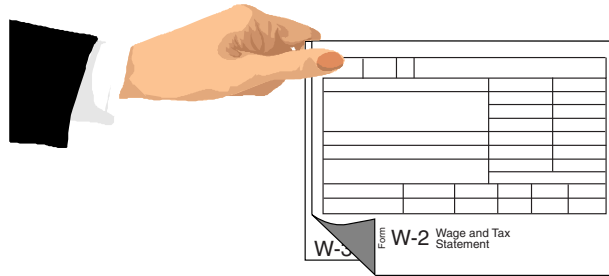
If your principal business, office or agency, or legal residence in the case of an individual, is located in Alabama, Arizona, Florida, Georgia, Louisiana, Mississippi, New Mexico, Texas Arkansas, Connecticut, Kentucky, Maine, Massachusetts, New Hampshire, New York, Ohio, Rhode Island, Vermont, West Virginia Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma, South Dakota, Wisconsin	Use the following Internal Revenue Service Center address Austin, TX 73301 Cincinnati, OH 45999 Kansas City, MO 64999
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For more information and the Privacy Act and Paperwork Reduction Act Notice, see the 2001 General Instructions for Forms 1099, 1098, 5498, and W-2G.

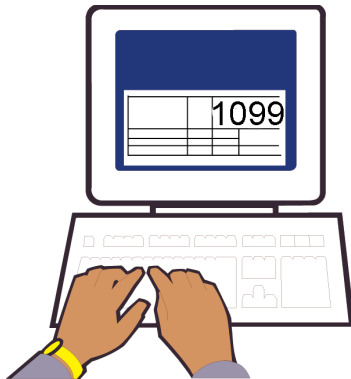
Cat. No. 144000 Form **1096** (2001)

Correcting Forms W-2 and W-3

If there is an error on Forms W-2 or W-3, correct by filing Form W-2c, CORRECTED WAGE AND TAX STATEMENT and Form W-3c, TRANSMITTAL OF CORRECTED OF CORRECTED WAGE AND TAX STATEMENTS.



Filing on Magnetic Media or Electronically



Generally, the Social Security Administration will accept magnetic media or electronic records of Copy A of Forms W-2 or W-3 with prior approval. See the separate INSTRUCTIONS FOR FORM W-2 or W-3 for details about required magnetic media filing. If you file 250 or more Forms W-2 or 1099, you must file them on magnetic media or electronically. The 250 requirement applies separately for each type of information return and separately for each type of corrected return. When filed electronically, the due date is March 31 instead of February 28 to submit the forms.

The IRS encourages filers to transmit information returns electronically because it is generally more cost effective and easier than paper or magnetic media. To participate in the program, filers must submit a Form 4419, APPLICATION FOR FILING INFORMATION RETURNS MAGNETICALLY/ELECTRONICALLY, at least 30 days before the due date of the return(s) for current year processing.

Information Reporting Call Site

The IRS operates a centralized call site to answer questions about reporting on Forms W-3, W-2, 1096 and 1099 and other information returns. If you have questions related to reporting on information returns, call **(304) 263-8700** (not toll-free), Monday through Friday, 8:30 A.M. to 4:30 P.M. (EST).

Penalties

The following is a list of nine penalties that may be assessed for not complying with certain filing and payment requirements:

1. Failure to file.
2. Failure to pay.
3. Dishonored check.
4. Failure to timely file an information return with IRS or SSA.
5. Failure to timely furnish a copy of any information return to the payee.
6. Failure to file a partnership return.
7. Failure to make Federal Tax Deposits on time in an authorized government depository.
8. Failure to furnish specific information on an information return, such as including taxpayer identification numbers.
9. Failure to collect and/or pay over Trust Fund taxes (Trust Fund Recovery Penalty).
10. Failure to make deposits electronically if required to do so.

Putting It All Together

In this lesson you:

- briefly studied employment taxes;
- reviewed the Employer Identification Number (EIN);
- learned the definitions of “employee” and “independent contractor” for tax purposes;
- learned about Forms W-4, I-9 and information Forms 1099-MISC, W-9 and W-2;
- were introduced to the following subjects:
 - federal income tax (withheld from employees);
 - social security and Medicare taxes (withheld from employees and paid by employers) and federal unemployment taxes;
 - successor employer and
 - Earned Income Credit.
- learned about Forms W-3 and 1096 and how to
- correct errors on Forms W-2 and W-3;
- read about transmitting Forms W-3, W-2, 1096 and 1099 on magnetic media or electronically and
- learned about 10 penalties that may be assessed for not complying with certain filing and payment requirements.

Exercises

Do the following exercises to put it all together:

Exercise 1

Bill Bean started a dry cleaning business and hired two employees. What form does he use to get an employer identification number?

Exercise 2

What form will your employee complete and give to you for you to determine how much income tax to withhold?

Exercise 3

(A) What are the social security tax and Medicare tax rates on an employee's salary in 2001?

(1) Social security tax rate _____%

(2) Medicare tax rate _____%

(B) What is the employer's share of each? _____

(C) What is the 2001 wage base limit for social security?
\$ _____

(D) What is the limit for Medicare? _____

Exercise 4

(A) What form will you give to each employee to show wages paid, social security, Medicare and income taxes withheld?

(B) When is it due to the employee? _____

Exercise 5

What form will you give an unincorporated independent contractor to whom you paid \$600 or more for services in the course of your trade or business? _____

Exercise 6

If you make payments to an unincorporated independent contractor who does not give you his or her identifying number, at what rate will you withhold taxes on the payments? _____%

Exercise 7

Mary Smith, your employee, wants advance payments of earned income credit added to her wages. What form should she complete and give to you? _____

Exercise 8

What forms will you use to correct a Form W-2 that is in error? _____ and _____

(Answers found on page A-1.)

Notes

Lesson 3

Part I: Form 941, Employer's Quarterly Federal Tax Return

Introduction



If you are an employer who is required to withhold income or social security and Medicare taxes, you must file a return reporting the amounts withheld. Form 941, **EMPLOYER'S QUARTERLY FEDERAL TAX RETURN**, is used for this purpose. However, other forms are used in certain circumstances. (See Exhibit 3.1 on page 3-4.)

If you are a sole proprietor and file Form 941 for business employees, you may include household employees on the form. Also, if you operate a farm for profit and file Form 943, **EMPLOYER'S ANNUAL TAX RETURN FOR AGRICULTURAL EMPLOYEES**, for your agricultural employees, you may include farm household workers on that form.

Form 945, ANNUAL RETURN OF WITHHELD FEDERAL INCOME TAX, is used to report income tax withheld from non-payroll payments, such as pensions, IRAs, gambling winnings and backup withholding.

Publication 15, EMPLOYER'S TAX GUIDE (Circular E), explains the rules and methods for withholding, paying, depositing and reporting federal income tax, social security and Medicare taxes and federal unemployment (FUTA) tax on wages, tips and fringe benefits. It also explains who is an employee, what are taxable wages and what are taxable tips.

Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE, provides specialized information supplementing the basic employment tax information provided in Circular E, such as a more detailed discussion on the employment tax treatment of fringe benefits and information on how to report third-party sick pay.

Publication 15-B, EMPLOYER'S TAX GUIDE TO FRINGE BENEFITS, contains detailed information on fringe benefits and their exclusion and valuation rules.

Publication 15-T, NEW WITHHOLDING TABLES FOR 2001 (FOR WAGES PAID AFTER JUNE 30, 2001), reflects changes due to the recent tax cut bill.

Objectives

At the end of this lesson, you will be able to:

1. Determine Form 941 deposit requirements.
2. Prepare a Form 941.

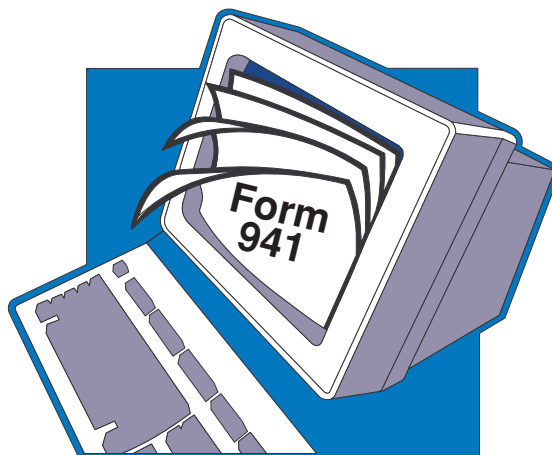
References

Publication 15, EMPLOYER'S TAX GUIDE (Circular E), Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE, Publication 15-B, EMPLOYER'S TAX GUIDE TO FRINGE BENEFITS AND Publication 15-T, NEW WITHHOLDING TABLES FOR 2001 (FOR WAGES PAID AFTER JUNE 30, 2001).

Due Dates for Filing Form 941

Form 941 is due by the last day of the month after each quarter ends. The return filing dates are listed below:

Due Dates for Filing Form 941		
Quarter	Ends	Due Date
January, February, March	Mar. 31	Apr. 30*
April, May, June	June 30	July 31*
July, August, September	Sept. 30	Oct. 31*
October, November, December	Dec. 31	Jan. 31*
<i>*If the due date for a return falls on a Saturday, Sunday or legal holiday, the due date is the next business day.</i>		



If you paid the quarterly tax payments in full, you are allowed an additional 10 days to file the return. For example, your return for the quarter that ends on June 30 would be due on August 10 instead of July 31.

Do not file more than one Form 941 per quarter and do not report more than one calendar quarter on a return.

Seasonal employers are not required to file for quarters when they regularly have no tax liability because they have paid no wages. To alert the IRS that you will not have to file a return for one or more quarters during the year, check the seasonal employer box above line 1 on Form 941 each time you file. The IRS will mail two Forms 941 to you once a year after March 1. The preprinted name and address information will not include the date the quarter ended. You must enter that date when you file the return.



If you are not a seasonal employer, but you receive a preaddressed Form 941 for a quarter in which you have no employees or may have temporarily stopped paying salaries, file a return anyway. This ensures that you will continue to receive Form 941 from the service center.

If you cease to do business or pay wages, you need to file a final return. The instructions for Form 941 give information on how to file if you sell, transfer or merge your business with another business.

Always use the preaddressed form mailed to you. If you do not receive a preaddressed form, print or type your name and address **exactly** as shown on the previous return unless the information has changed.

The date your quarter ends and your EIN must also be shown. If you have not yet received notification of your EIN, write “Applied for” and the date you applied in the space provided for the EIN.

EXHIBIT 3.1 - BLANK FORM 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN

Form 941 (Rev. January 2001) Department of the Treasury Internal Revenue Service	Employer's Quarterly Federal Tax Return ▶ See separate instructions for information on completing this return. Please type or print.			OMB No. 1545-0029 T FF FD FP I T
Enter state code for state in which deposits were made only if different from state in address to the right ▶	Name (as distinguished from trade name)	Date quarter ended		
	Trade name, if any	Employer identification number		
	Address (number and street)	City, state, and ZIP code		
If address is different from prior return, check here ▶ ☐	1 1 1 1 1 1 1 1 1 2 6 7 8 8 8 8 8 8 8 8 3 3 3 3 3 3 3 3 3 3 9 9 9 9 9 9 9 9 9 9 4 4 4 5 5 5 10 10 10 10 10 10 10 10 10 10			
If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶ If you are a seasonal employer, see Seasonal employers on page 1 of the instructions and check here ▶ ☐				
1 Number of employees in the pay period that includes March 12th ▶ 1				
2 Total wages and tips, plus other compensation				
3 Total income tax withheld from wages, tips, and sick pay				
4 Adjustment of withheld income tax for preceding quarters of calendar year				
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)				
6 Taxable social security wages 6a × 12.4% (.124) = 6b Taxable social security tips 6c × 12.4% (.124) = 6d 7 Taxable Medicare wages and tips 7a × 2.9% (.029) = 7b				
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax. ▶ ☐				
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ ± Fractions of Cents \$ ± Other \$ = 9				
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions) 10				
11 Total taxes (add lines 5 and 10) 11				
12 Advance earned income credit (EIC) payments made to employees 12				
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941)) 13				
14 Total deposits for quarter, including overpayment applied from a prior quarter 14				
15 Balance due (subtract line 14 from line 13). See instructions 15				
16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ and check if to be: ☐ Applied to next return or ☐ Refunded.				
• All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941). • Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶ ☐ • Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. ▶ ☐				
17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.				
(a) First month liability		(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.				
Signature ▶		Print Your Name and Title ▶		Date ▶
For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2001)				

Form 941

Complete the state code boxes if you made your deposits in a state other than that shown in your address on Form 941. Enter the state code for the state where you made deposits in the box provided in the upper left corner of the form. Enter code “MU” in the box if you deposit in more than one state. **If you deposit in the same state as shown in your address, do not make an entry.** If you deposited electronically (discussed on page 3-10) do not make an entry here.

Complete lines 1 through 17, if applicable. Specific Form 941 line entries are discussed below. More complete information on these line entries is contained in the instructions for Form 941.

Line 1.

Make an entry for the pay period including March 12, on the 1st quarter (January–March) return only.

Line 2.

Enter the total of: all wages paid, tips reported, taxable fringe benefits provided and other compensation paid to your employees, even if you do not have to withhold income tax or social security tax on it. Do not include contributions to employee plans that are excluded from the employee’s wages (e.g., section 401(k) and 125 plans).

Line 3.

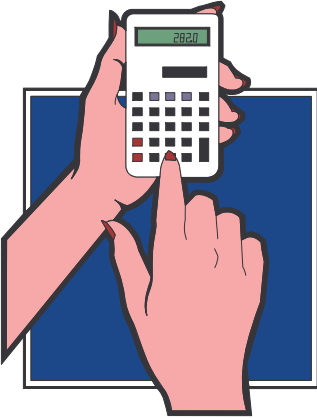
Enter the income tax you withheld on wages, tips, taxable fringe benefits and certain other payments.

Line 6a.

Taxable social security wages. Enter the total wages subject to social security taxes that you paid your employees during the quarter. Also include any sick pay and taxable fringe benefits subject to social security taxes. Stop reporting when an employee’s wages (including tips) reach the wage base (\$80,400 in 2001). Multiply by the applicable percentage printed on the line.

Line 6c.

Taxable social security tips. Enter all tips your employees reported during the quarter, until tips and wages for an employee reach the wage base amount (\$80,400 in 2001). Do this even if you were not able to withhold the employee social security tax. See the Form 941 instructions for details on how to make an adjustment for uncollected social security tax on tips.

**Line 7a.**

Taxable Medicare wages and tips. Report all wages and tips, including any sick pay and taxable fringe benefits subject to Medicare tax. There is no limit on the amount of wages subject to Medicare.

Line 8.

Total social security and Medicare taxes. Check the box if none of the wages are subject to social security or Medicare taxes.

Line 9.

Adjustment of social security and Medicare taxes. A fractions-of-cents adjustment is the small difference that may occur between net taxes (line 13) and total deposits (line 14), because of rounding to the nearest cent each time you computed payroll. This rounding occurs when you figure the amount of social security and Medicare taxes to be withheld from each employee's wages.

To determine if you have a fractions-of-cents adjustment, multiply the total wages and tips for the quarter by the applicable percentage and compare these amounts with the total social security and Medicare taxes actually withheld from your payroll records. The difference, positive or negative, is your fractions-of-cents adjustment.

See Publication 15 for instructions on other adjustments.

EXHIBIT 3.2 - FORM 941, SCHEDULE B, EMPLOYER'S RECORD OF FEDERAL**Line 12.**

Enter any advance EIC payments made to employees.

Line 13.

Net taxes. Make sure the line equals line 17, column (d) below (or line D of Schedule B (Form 941)). (See Exhibit 3.2 on page 3-7.)

Note: *If line 13 is \$2,500 or more, check the appropriate box below Line 16 indicating your depositor status.*

TAX LIABILITY

**SCHEDULE B
(FORM 941)**(Rev. November 1998)
Department of the Treasury
Internal Revenue Service**Employer's Record of Federal Tax Liability**

▶ See Circular E for more information about employment tax returns.

OMB No. 1545-0029

5151

▶ Attach to Form 941 or 941-SS.

Name as shown on Form 941 (or Form 941-SS)

Employer identification number

Date quarter ended

You must complete this schedule if you are required to deposit on a semiweekly schedule, or if your tax liability on any day is \$100,000 or more. Show tax liability here, not deposits. (The IRS gets deposit data from FTD coupons or EFTPS.)

A. Daily Tax Liability—First Month of Quarter

1		8		15		22		29
2		9		16		23		30
3		10		17		24		31
4		11		18		25		
5		12		19		26		
6		13		20		27		
7		14		21		28		

A Total tax liability for first month of quarter▶ **A****B. Daily Tax Liability—Second Month of Quarter**

1		8		15		22		29
2		9		16		23		30
3		10		17		24		31
4		11		18		25		
5		12		19		26		
6		13		20		27		
7		14		21		28		

B Total tax liability for second month of quarter▶ **B****C. Daily Tax Liability—Third Month of Quarter**

1		8		15		22		29
2		9		16		23		30
3		10		17		24		31
4		11		18		25		
5		12		19		26		
6		13		20		27		
7		14		21		28		

C Total tax liability for third month of quarter▶ **C****D** Total for quarter (add lines A, B, and C). This should equal line 13 of Form 941 (or line 10 of Form 941-SS)▶ **D**

For Paperwork Reduction Act Notice, see page 2.

Cat. No. 11967Q

Schedule B (Form 941) (Rev. 11-98)

Monthly Summary of Federal Tax Liability

Report on line 17 your employment tax liability for each month based on the date the corresponding wages were paid, not when the payroll period ends. If your total taxes for the quarter are \$2,500 or more, you must instead complete the a separate Schedule B, EMPLOYER'S RECORD OF FEDERAL TAX LIABILITY, page 3-7 (Exhibit 3.2).



Tax liability is income tax withheld plus both the employee and employer shares of social security and Medicare taxes, minus any advance earned income credit (EIC) payments.

Filing by Other Methods



You may be able to file Form 941 by phone if you meet certain criteria. On-line filing through a personal computer is also an option.

Reporting Agents who file Forms 941 for groups of taxpayers can file them electronically or on tape. See Lesson 6 and Publication 15-A for details.

Now that you have covered the background information, you will learn how deposits are made, how information is entered on the form and how the tax due is figured.

Depositing Requirements

In general, you must deposit income tax withheld and both the employer and employee social security and Medicare taxes (minus any advance EIC payments) using the Electronic Federal Payment System (EFTPS) or by mailing or delivering a check, money order or cash to an authorized financial institution or Federal Reserve bank with Form 8109, FEDERAL TAX DEPOSIT COUPON. Some taxpayers are required to deposit using EFTPS.

Payment With Return

You may make a payment with Form 941 instead of depositing it if your net tax liability (reduced by any advance earned income credit) during the quarter (line 13 of Form 941) is less than \$2,500. (Exhibit 3.3 below.) See Publication 15 for exceptions.

EXHIBIT 3.3 - FORM 941, PAYMENT VOUCHER

▼ Detach Here and Mail With Your Payment ▼		Form 941-V (2001)				
Form 941-V Department of the Treasury Internal Revenue Service (99)	Payment Voucher ▶ Do not staple or attach this voucher to your payment.	OMB No. 1545-0074 2001				
1 Enter the first four letters of your last name (business name if corporation or partnership) 	2 Enter your employer identification number 	3 Enter the amount of the payment 				
4 Tax period <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;"> ☐ 1st Quarter </td> <td style="width: 50%; text-align: center;"> ☐ 3rd Quarter </td> </tr> <tr> <td style="text-align: center;"> ☐ 2nd Quarter </td> <td style="text-align: center;"> ☐ 4th Quarter </td> </tr> </table>	☐ 1st Quarter	☐ 3rd Quarter	☐ 2nd Quarter	☐ 4th Quarter	5 Enter your business name (individual name if sole proprietor) Enter your address Enter your city, state, and ZIP code 	
☐ 1st Quarter	☐ 3rd Quarter					
☐ 2nd Quarter	☐ 4th Quarter					

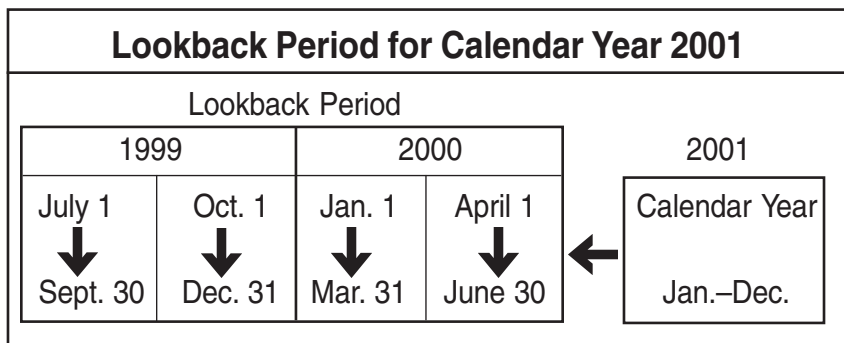
When to Deposit

There are two deposit schedules – **monthly or semiweekly** – for determining when you deposit social security, Medicare and withheld income taxes. These schedules tell you when a deposit is due after a tax liability arises (e.g., when you have a payday).

Lookback Period

Your deposit schedule for a calendar year is determined from the total taxes (not reduced by any advance EIC payments) reported on your Forms 941 (line 11) in a four-quarter lookback period. The lookback period for Form 941 filers begins July 1 and ends June 30. (See Exhibit 3.4.) If you reported \$50,000 or less of taxes for the lookback period, you are a monthly schedule depositor; if you reported more than \$50,000 you are a semiweekly schedule depositor.

EXHIBIT 3.4 – LOOKBACK PERIOD FOR CALENDAR YEAR 2001



Monthly Deposit Schedule

Under the monthly deposit schedule, deposit Form 941 taxes on payments made during a month by the 15th day of the following month.

Note to new employers: During the first calendar year of your business, your tax liability for each quarter, in the lookback period, is considered to be zero. Therefore, you are a monthly schedule depositor for the first calendar year of your business unless the \$100,000 Next-Day Deposit rule (discussed on page 3-11) applies.

Semiweekly Deposit Schedule

You are a semiweekly schedule depositor for a calendar year if the total taxes on Form 941 (line 11) during your lookback period were more than \$50,000. If the payday falls on Wednesday, Thursday and /or Friday, you must deposit the Form 941 taxes no later than the following Wednesday. (See Exhibit 3.5 below.) If the payday falls on Saturday, Sunday, Monday and/or Tuesday, deposit by Friday.

EXHIBIT 3.5 – SEMIWEEKLY DEPOSIT SCHEDULE

Semiweekly Deposit Schedule	
IF the day falls on a...	THEN deposit taxes by the following...
Wednesday, Thursday and/or Friday	Wednesday
Saturday, Sunday, Monday and/or Tuesday	Friday

Application of Monthly and Semiweekly Schedule

The terms “monthly schedule depositor” and “semiweekly schedule depositor” do not refer to how often your business pays its employees or even how often you are required to make deposits. These terms identify a set of deposit rules you must follow when employment tax liability occurs and are based on the date wages are paid.

\$100,000 Next-Day Deposit Rule

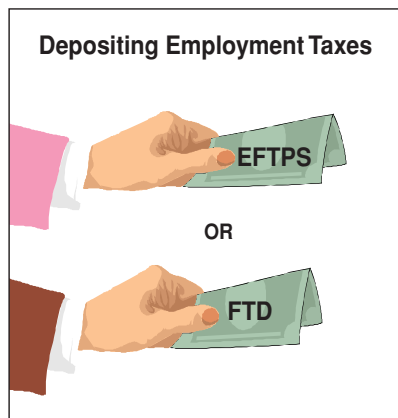
If you accumulate a tax liability (reduced by any advance EIC payments) of \$100,000 or more on any day during a deposit period, you must deposit the tax by the next banking day, regardless of whether you are a monthly or semiweekly schedule depositor. The term deposit period refers to the period during which tax liabilities are accumulated for each required deposit due date. For monthly schedule depositors, the deposit period is a calendar month. If you are a monthly depositor and become subject to the rule, you become a semiweekly depositor for the remainder of the year and all of the following year.

How To Deposit

The two methods of depositing employment taxes are by EFTPS and by using Federal Tax Deposit (FTD) coupons (Form 8109).

You are required to make electronic deposits using EFTPS of **all** your tax liabilities in 2001 if your total deposits of **all** federal depository taxes were more than \$200,000 in 1999. For more details, see Publication 15 and Lesson 6.

If you are not required to use EFTPS, you can make your required deposits at an authorized financial institution or Federal Reserve bank (FRB) using FTD coupons. (See Exhibit 3.6 on page 3-12). The IRS will issue you a book of coupons 5 to 6 weeks after you receive your EIN.



Note: Even if you are not required to make electronic tax deposits, you may voluntarily participate in EFTPS. To enroll, call 1-800-945-8400 or 1-800-555-4477.

An employer may be penalized for using the wrong deposit method. Always ensure your deposits are timely because late deposits are subject to penalties. Check with your local depository or FRB for information concerning their cutoff time (exact hour they start dating deposits as received on their next banking day).

EXHIBIT 3.6 – BLANK FORM 8109, FEDERAL TAX DEPOSIT COUPON
Example

Smith Enterprises, Inc.
 EIN: 10-1614316
 1512 Poplar St.
 Inn, MI 48200

Period Ending	Number of Employees	Gross Wages	*FICA Withheld	*Employer's FICA	Income Tax Withheld
1/31/01	4	\$4,800	\$367.20	\$367.20	\$400.00
2/28/01	4	4,750	363.38	363.38	406.00
3/31/01	3	4,200	321.30	321.30	340.00
Quarterly Totals		\$13,750	\$1,051.88	\$1,051.88	\$1,146.00
*Social security and Medicare taxes referred to as FICA.					

****Note: April 15, 2001 is a Sunday. Refer to calendar in back of the workbook.**

Smith Enterprises, Inc., as a monthly depositor, must deposit each month's taxes by the 15th of the following month (\$1,134.40 by February 15; \$1,132.76 by March 15 and \$982.60 by April 16**). If the **total** taxes for all three months of the quarter had been less than \$2,500, then they could have been deposited or paid with the Form 941 to be filed by April 30, 2001.

(Exhibit 3.7 on page 3-12 uses this information to complete Form 941.)

EXHIBIT 3.7 – FORM 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN

Form 941 (Rev. January 2001)
Department of the Treasury
Internal Revenue Service

Employer's Quarterly Federal Tax Return
▶ See separate instructions for information on completing this return.
Please type or print.

Enter state code for state in which deposits were made only if different from state in address to the right ▶ ☐ 1

Name (as distinguished from trade name)
SMITH ENTERPRISES, INC.
Trade name, if any

Date quarter ended
3-31-2001
Employer identification number
10-1614316
City, state, and ZIP code
INN, ME 48200

OMB No. 1545-0029
T
FF
FD
FP
I
T

Address (number and street)
1512 POPLAR ST.

If address is different from prior return, check here ▶ ☐

IRS Use

1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	4	4	4	5	5	5
6	7	8	8	8	8	8	8	8	8	9	9	9	9	9	10	10	10	10	10	10	10	10	10

If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶ ☐

1	Number of employees in the pay period that includes March 12th ▶	1	3
2	Total wages and tips, plus other compensation	2	13750 00
3	Total income tax withheld from wages, tips, and sick pay	3	1146 00
4	Adjustment of withheld income tax for preceding quarters of calendar year	4	
5	Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	5	1146 00
6	Taxable social security wages	6a	13750 00
	Taxable social security tips	6c	
7	Taxable Medicare wages and tips	7a	13750 00
8	Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax ▶ ☐	8	2103 75
9	Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ ± Fractions of Cents \$ 4.01 ± Other \$ =	9	01
10	Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	10	2103 76
11	Total taxes (add lines 5 and 10)	11	3249 76
12	Advance earned income credit (EIC) payments made to employees	12	
13	Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	13	3249 76
14	Total deposits for quarter, including overpayment applied from a prior quarter	14	3249 76
15	Balance due (subtract line 14 from line 13). See instructions	15	
16	Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ and check if to be: ☐ Applied to next return or ☐ Refunded.		

• All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941).
• Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶ ☐
• Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. ▶ ☒

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter
1134.40	1132.76	982.60	3249.76

Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ **Helen Smith** Print Your Name and Title ▶ **HELEN SMITH, PRES.** Date ▶ **4/28/2001**

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 170012 Form 941 (Rev. 1-2001)

Deposit Penalties

Deposits not made in a timely manner may be subject to penalties. For amounts not properly or timely deposited, the penalty rates are:

- **2%** - Deposits made 1 to 5 days late.
- **5%** - Deposits made 6 to 15 days late.
- **10%** - Deposits made 16 or more days late.
- **10%** - Deposits made at an unauthorized financial institution, paid directly to the IRS or paid with your tax return. See Publication 15 for exceptions.
- **10%** - Amounts that are subject to electronic deposit requirements but not deposited using EFTPS.
- **15%** - Amounts still unpaid more than 10 days after the date of the first notice the IRS sent asking for the tax due or the day on which you receive notice and demand for immediate payment, whichever is earlier.

Correcting Form 941

Errors made in figuring taxes in an earlier quarter can be corrected on a current Form 941 by making an adjustment to the current quarter's taxes. Circular E describes in detail how to correct errors to income tax withholding, social security and Medicare taxes.

Note: *You may not adjust or claim a refund or credit for any overpayment of income tax that you withheld or deducted from an employee in a prior year. But see Circular E for information on administrative error adjustments.*

Summary

In this lesson, you studied:

- Form 941 and its due dates,
- deposit requirements,
- the method of depositing taxes due and
- some of the sections and lines of Form 941.



Remember: Form 941 is a quarterly return, but deposits may be required on a monthly or semiweekly schedule.

Exercises

Exercise 1

Green for Ever, Inc.
 EIN: 10-1234567
 925 Fern Ave.
 Augusta, GA 32599

Pay Date	Number of Employees	Gross Wages	*Social Security Tax Withheld	*Medicare Tax Withheld	Income Tax Withheld
4/6/01	2	\$2,050	\$127.10	\$29.73	\$163.00
4/20/01	3	3,805	235.91	55.17	285.00
5/4/01	4	5,545	343.79	80.40	356.00
5/18/01	4	5,975	370.45	86.64	373.00
6/1/01	4	5,050	313.10	73.23	328.00
6/15/01	3	4,405	273.11	63.87	467.00
Totals		\$26,830	\$1,663.46	\$389.04	\$1,972.00
*Employer must match these amounts.					

First, figure the amount and date of deposits (the company is a monthly depositor). Then complete a Form 941 (Exhibit 3.8) using the information provided.

Deposit dates and amounts are:

Total deposits \$_____

(Answers are found on pages A-2 and A-3.)

EXHIBIT 3.8 - BLANK FORM 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN FOR EXERCISE 1

Form 941 (Rev. January 2001) Department of the Treasury Internal Revenue Service	Employer's Quarterly Federal Tax Return ▶ See separate instructions for information on completing this return. Please type or print.			OMB No. 1545-0029 T FF FD FP I T																																																	
Enter state code for state in which deposits were made only if different from state in address to the right ▶ (see page 2 of instructions).	Name (as distinguished from trade name) Trade name, if any Address (number and street)	Date quarter ended Employer identification number City, state, and ZIP code																																																			
If address is different from prior return, check here ▶ ☐																																																					
<table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <tr> <td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">1</td><td style="width: 5%;">2</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">3</td><td style="width: 5%;">4</td><td style="width: 5%;">4</td><td style="width: 5%;">4</td><td style="width: 5%;">5</td><td style="width: 5%;">5</td><td style="width: 5%;">5</td> </tr> <tr> <td>6</td><td>7</td><td>8</td><td>8</td><td>8</td><td>8</td><td>8</td><td>8</td><td>8</td><td>8</td><td>8</td><td>9</td><td>9</td><td>9</td><td>9</td><td>9</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td><td>10</td> </tr> </table>					1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	4	4	4	5	5	5	6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	10	10	10	10	10	10	10	10	10
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17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor. <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <tr> <td style="width: 25%;">(a) First month liability</td> <td style="width: 25%;">(b) Second month liability</td> <td style="width: 25%;">(c) Third month liability</td> <td style="width: 25%;">(d) Total liability for quarter</td> </tr> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </table>					(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter																																													
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter																																																		
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Signature ▶ _____ Print Your Name and Title ▶ _____ Date ▶ _____																																																					
For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2001)																																																					

Exercise 2

In May 2001, you decide to employ your 16 year-old son* to assist you in your yard service business, Glenn's Landscaping (a sole proprietorship). You are advised to have him complete a Form W-4, which he does, showing no (0) withholding allowances and single filing status. It is agreed that he will earn \$5.00 per hour and be paid every two weeks. He had worked 36 hours when it came time to make out his first paycheck. Using Publication 15 as a reference, answer the following:

How much should you withhold from his check?

*Social Security Tax \$_____

Medicare Tax \$_____

Federal Income Tax \$_____

**See page 28 (Family Employees) of Publication 15.*

(Answers are found on page A-2.)

Exercise 3

Paul's Auto Shop, Inc.
 EIN 10-9876543
 425 Auto Strip Dr.
 Cando, LA 88877

Pay Date	Number of Employees	Gross Wages	*Social Security Tax Withheld	*Medicare Tax Withheld	Income Tax Withheld Before AEIC	AEIC Payments
10/5/01	20	\$30,025	\$1,861.55	\$435.36	\$5,980.00	\$45.00
10/19/01	20	29,826	1,849.12	432.48	5,726.00	36.00
11/2/01	18	27,500	1,705.00	398.75	5,335.00	28.00
11/16/01	18	28,845	1,788.39	418.25	5,576.00	14.00
11/30/01	20	26,214	1,625.27	380.10	5,433.00	20.00
12/14/01	20	30,025	1,861.55	435.36	5,980.00	45.00
12/28/01	20	30,025	1,861.55	435.36	5,980.00	45.00
12/28/01 (Bonus)	20	4,000	248.00	58.00	155.00	3.00
Totals		\$206,460	\$12,800.43	\$2,993.66	\$40,165.00	\$236.00
*Employer must match these amounts.						

First, figure the amount and date of deposits (the corporation is a semiweekly depositor). Then complete a Form 941 and a Schedule B (Exhibit 3.9), using the information provided.

Deposit dates and amounts are:

Total deposits \$_____

(Answers are found on pages A-2 and A-4.)

EXHIBIT 3.9 - BLANK FORM 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN FOR EXERCISE 3

Form 941 (Rev. January 2001) Department of the Treasury Internal Revenue Service	Employer's Quarterly Federal Tax Return ▶ See separate instructions for information on completing this return. Please type or print.			OMB No. 1545-0029 T FF FD FP I T
Enter state code for state in which deposits were made only if different from state in address to the right ▶ (see page 2 of instructions).	Name (as distinguished from trade name)	Date quarter ended		
	Trade name, if any	Employer identification number		
	Address (number and street)	City, state, and ZIP code		

If address is different from prior return, check here ▶	IRS Use	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	3	4	4	4	5	5	5
		6	7	8	8	8	8	8	8	8	9	9	9	9	9	10	10	10	10	10	10	10	10

If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶

If you are a seasonal employer, see **Seasonal employers** on page 1 of the instructions and check here ▶ ☐

1 Number of employees in the pay period that includes March 12th . ▶ 1	2	
2 Total wages and tips, plus other compensation	3	
3 Total income tax withheld from wages, tips, and sick pay	4	
4 Adjustment of withheld income tax for preceding quarters of calendar year	5	
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions)	6a	
6 Taxable social security wages	6b	
6 Taxable social security tips	6c	
7 Taxable Medicare wages and tips	6d	
7a	7a	
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax ▶ ☐	7b	
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ ± Fractions of Cents \$ ± Other \$ =	8	
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions)	9	
11 Total taxes (add lines 5 and 10)	10	
12 Advance earned income credit (EIC) payments made to employees	11	
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941))	12	
14 Total deposits for quarter, including overpayment applied from a prior quarter	13	
15 Balance due (subtract line 14 from line 13). See instructions	14	
16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ and check if to be: ☐ Applied to next return or ☐ Refunded.	15	

• All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941).
 • Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ▶ ☐
 • Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. ▶ ☐

17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.			
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.	Print Your Name and Title ▶
	Signature ▶	Date ▶

For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2001)

EXHIBIT 3.9 - BLANK SCHEDULE B, FORM 941, EMPLOYER'S RECORD OF FEDERAL TAX LIABILITY FOR EXERCISE 3

SCHEDULE B (FORM 941) (Rev. November 1998) Department of the Treasury Internal Revenue Service	Employer's Record of Federal Tax Liability ▶ See Circular E for more information about employment tax returns. 5151 ▶ Attach to Form 941 or 941-SS.	OMB No. 1545-0029
Name as shown on Form 941 (or Form 941-SS)		Employer identification number
		Date quarter ended
You must complete this schedule if you are required to deposit on a semiweekly schedule, or if your tax liability on any day is \$100,000 or more. Show tax liability here, not deposits. (The IRS gets deposit data from FTD coupons or EFTPS.)		
A. Daily Tax Liability—First Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
A Total tax liability for first month of quarter		A
B. Daily Tax Liability—Second Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
B Total tax liability for second month of quarter		B
C. Daily Tax Liability—Third Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
C Total tax liability for third month of quarter		C
D Total for quarter (add lines A, B, and C). This should equal line 13 of Form 941 (or line 10 of Form 941-SS)		D

For Paperwork Reduction Act Notice, see page 2. Cat. No. 11067Q Schedule B (Form 941) (Rev. 11-98)

General Instructions

Purpose of form. Use Schedule B (Form 941) to report your tax liability (income tax withheld plus both employee and employer social security and Medicare taxes minus any advance earned income credit payments) on a daily basis. Form 941-SS filers report only employee and employer social security and Medicare taxes. **Do not** show Federal tax deposits. Deposit information is obtained from the deposit coupons (Form 8109) or from the Electronic Federal Tax Payment System (EFTPS).

Example B. Employer B is a semiweekly schedule depositor. It has paydays every other Friday. It accumulated a \$20,000 employment tax liability on each of the following pay dates: 1/8/99; 1/22/99; 2/5/99; 2/19/99; 3/5/99; and 3/19/99. Since Employer B is a semiweekly schedule depositor, it is required to record its tax liabilities on Schedule B (Form 941). Employer B must record the \$20,000 liabilities on lines 8 and 22 of part A (First Month of Quarter); lines 5 and 19 of part B (Second Month of Quarter); and lines 5 and 19 of part C (Third Month of Quarter).

Lesson 3

Part II: Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return

Introduction

The Federal Unemployment Tax Act (FUTA) provides for states and the federal government to cooperate in establishing and administering the unemployment tax program. The program provides for payments of unemployment compensation to workers who have lost their jobs.

The various states create the actual employment insurance systems. The federal government approves the state laws and pays the administrative costs of the state programs.

Under this dual system, the employer is first subject to a tax levied by the state. This tax then becomes a credit against a separate federal tax. However, you may be exempt from state tax but still have to pay the federal tax.

The federal unemployment (FUTA) tax is reported on Form 940, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN or Form 940-EZ, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN. Both forms cover one calendar year and are generally due by January 31 of the following year. (See Exhibits 3.10 and 3.11 on pages 3-26 through 3-31.)

Objectives

At the end of this lesson, you will be able to:

1. Define employer, employee and wages subject to FUTA.
2. Figure the FUTA tax due.
3. Figure the deposits for FUTA taxes.
4. Complete Form 940-EZ.

References

Publication 15, EMPLOYER'S TAX GUIDE (Circular E) and Publication 15-A, EMPLOYER'S SUPPLEMENTAL TAX GUIDE.

Who Are Employers?



In general, you are an employer for FUTA tax purposes and must file and pay FUTA tax if, during the current *or* preceding year, you:

- paid wages of \$1,500 or more in any calendar quarter to employees (other than farm workers or household workers) **or**
- had one or more employees (other than farm workers or household workers) at any time in each of any 20 or more weeks (calendar).

The 20 weeks do not have to be consecutive. Count all regular, temporary and part-time employees, and count employees on vacation or sick leave.

You may be liable for the state unemployment tax and not liable for the FUTA tax. Conversely, you may be exempt from state tax and still have to pay the federal tax. The definition of employer under state laws may differ from the definition under federal law.

Note: *the term “employer” as used here refers to a person who is an employer for FUTA tax purposes only. It is possible not to be an employer for FUTA tax purposes and still be an employer for social security and Medicare tax purposes or for purposes of withholding income tax.*

Who Are Employees?



The rules used for purposes of social security and Medicare tax also apply in determining who are common-law employees for purposes of FUTA tax.

For FUTA tax, as for social security and Medicare taxes, there are statutory employees and non-employees in addition to common-law employees.

Refer to the charts of special classes of employment in Publication 15 to see which employees are covered by, or are exempt from, FUTA tax.

What Are FUTA Wages?

As with wages for income tax withholding and social security and Medicare tax purposes, FUTA wages generally include money and other forms of payment to employees. For other exceptions, refer to Publication 15 or Publication 15-A.

Wages Not Paid In Money

If you pay your employees in some medium that is neither cash nor a readily negotiable instrument (such as a check), you are said to pay them “in kind.” Payments in kind may be in the form of goods, lodging, food, clothing or services. Generally, wages paid in kind are treated the same way as wages paid in money. The value of a wage payment in kind is its fair market price on the day the payment is made.

Employee Taxes Paid by Employer

Generally, if you pay an employee’s liability for social security and Medicare taxes without deducting the tax from the employee’s pay, you must include the amount of the payment in the employee’s wages for purposes of the FUTA tax.

Figuring FUTA Tax

The FUTA tax is figured on the first \$7,000 in wages paid to each employee during the year. The tax is imposed on you as the employer. You must **not** collect it or deduct it from the wages you pay your employees.

The current FUTA tax rate is 6.2%. Generally, you can take a credit against your FUTA tax for amounts you paid into state unemployment funds. This credit cannot be more than 5.4% of taxable FUTA wages. If you are entitled to the maximum 5.4% credit, the FUTA tax rate after the credit is 0.8%.

Example

In November 2000, you hired Alice Green, and paid her \$3,500 in wages before the year ended. All \$3,500 was subject to the FUTA tax. The first \$7,000 you pay her in 2001 is also subject to the tax. Alice’s total wages for 2001 reached \$7,000 in mid-March. None of the wages you pay her for the remainder of the year are subject to the FUTA tax.

In July, Alice quits her job, and you hire someone to replace her. The first \$7,000 you pay Alice’s replacement in 2001 is also subject to the FUTA tax.

Credit for Contributions to States

Contributions are payments that a state requires an employer to make to its unemployment fund for the payment of unemployment benefits. However, contributions do **not** include:

Any payments deducted or deductible from your employees’ pay.

Penalties, interest or special administrative taxes not included in the contribution rate the state assigned to you.

Voluntary contributions paid to get a lower assigned rate.

You may receive an additional credit if you have a state experi

ence rate lower than 5.4% (.054). This applies even if your rate changes during the year. This additional credit is equal to the difference between actual payments and the amount you would have been required to pay at 5.4%.

The total credit allowable may not be more than 5.4% of taxable FUTA wages.



Note: *Credit for state contributions you make after the due date for filing Form 940 may not be more than 90% of the amount that would have been allowable if you had paid the amounts by the due date.*

State Experience Rate

Your state experience rate is the rate at which the state taxes your payroll for state unemployment purposes. This rate may be adjusted from time to time based on the number and length of claims for unemployment compensation that your former employees make against the fund. If you do not know your rate, contact your state employment security agency.

If you have been granted an experience rate lower than the maximum credit of 5.4% by a state for all or part of the year, you are still allowed the full credit. However, you cannot take credit for any state taxes for which you are liable and do not pay.

Successor Employer

If you acquire substantially all the property used in the business (or a unit of the business) of a previous employer who was subject to this tax, you may count, for purposes of the \$7,000 annual limit, the wages the previous employer paid during the year to the employees who continue to work for you.

Depositing the Tax

If, at the end of any calendar quarter, you owe, but have not yet deposited, more than \$100 in FUTA tax, you must make a deposit by the last day of the next month. If the accumulated tax at the end of any of the first three quarters is \$100 or less, do not deposit the amount; instead, add it to the tax for the next quarter.

To figure your tax for each quarter, multiply .8% (.008) by the part of the first \$7,000 of each employee's annual FUTA tax wages that you paid during the quarter.

When to Deposit

Deposit the FUTA tax by the last day of the first month after the quarter ends.

If your liability for the fourth quarter (plus any amount not deposited from any earlier quarter) is over \$100, deposit the entire amount by the due date (January 31) of Form 940 or Form 940-EZ. If it is \$100 or less, you can either make a deposit or pay the tax with your Form 940 or 940-EZ by January 31.

How to Deposit

If your FUTA tax liability for any calendar quarter in 2001 is more than \$100 (including any FUTA tax carried forward from an earlier quarter), you must deposit the tax using EFTPS **or** in an authorized financial institution using Form 8109, FEDERAL TAX DEPOSIT COUPON.

Example

Tim Tower has two employees. In each quarter of 2001, George is paid wages of \$3,000 and Mark is paid wages of \$2,000. Tim's FUTA tax liability for each of the first and second quarters is \$40 ($\$5,000 \times .008$). He is not required to deposit after the first or second quarter because his liability at the end of the second quarter is \$80 (not more than \$100). During the third quarter, Tim paid wages of \$3,000 subject to FUTA tax. Only \$1,000 of George's wages is taxable because \$6,000 was paid in the first two quarters. All of Mark's wages are taxable because he has not reached the \$7,000 level. Tim's tax liability for the third quarter is \$24 ($\$3,000 \times .008$). His liability through the third quarter is \$104 (\$40 for each of the first and second quarters plus \$24 for the third). He must deposit \$104 by October 31, 2001.

In the fourth quarter, none of George's wages are subject to FUTA but \$1,000 of Mark's is taxable. Tim should pay \$8. ($\$1,000 \times .008$) with Form 940 or 940-EZ.

EXHIBIT 3.10 – BLANK FORM 940, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN, PAGE 1

Form 940 Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return ▶ See separate Instructions for Form 940 for information on completing this form.	OMB No. 1545-0028 2000
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☐ Name (as distinguished from trade name) _____ Calendar year ☐ _____
 Trade name, if any _____
 Address and ZIP code _____ Employer identification number

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A Are you required to pay unemployment contributions to only one state? (If "No," skip questions B and C.) ☐ Yes ☐ No

B Did you pay all state unemployment contributions by January 31, 2001? ((1) If you deposited your total FUTA tax when due, check "Yes." (3) If "No," skip question C.) ☐ Yes ☐ No

C Were all wages that were taxable for FUTA tax also taxable for your state's unemployment tax? ☐ Yes ☐ No

If you answered "No" to any of these questions, you must file Form 940. If you answered "Yes" to all the questions, you may file Form 940-EZ, which is a simplified version of Form 940. (Successor employers see **Special credit for successor employers** on page 3 of the instructions.) You can get Form 940-EZ by calling 1-800-TAX-FORM (1-800-829-3676) or from the IRS Web Site at www.irs.gov.

If you will not have to file returns in the future, check here (see Who Must File in separate instructions), and complete and sign the return ☐

If this is an Amended Return, check here. ☐

Part I Computation of Taxable Wages

1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees 2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶ 3 Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. (See separate instructions.) Do not include any exempt payments from line 2. The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation. 4 Total exempt payments (add lines 2 and 3) 5 Total taxable wages (subtract line 4 from line 1)	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 10px; text-align: center;">1</td><td style="width: 10px;"></td></tr> <tr><td style="width: 10px; text-align: center;">2</td><td style="width: 10px;"></td></tr> <tr><td style="width: 10px; text-align: center;">3</td><td style="width: 10px;"></td></tr> <tr><td style="width: 10px; text-align: center;">4</td><td style="width: 10px;"></td></tr> <tr><td style="width: 10px; text-align: center;">5</td><td style="width: 10px;"></td></tr> </table>	1		2		3		4		5	
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Be sure to complete both sides of this form, and sign in the space provided on the back.

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 112340 Form **940** (2000)

DETACH HERE

Form 940-V Department of the Treasury Internal Revenue Service	Form 940 Payment Voucher Use this voucher only when making a payment with your return.	OMB No. 1545-0028 2000
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Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940", and "2000" on your payment.

1 Enter the first four letters of your last name (business name if partnership or corporation).

2 Enter your employer identification number.

3 Enter the amount of your payment.

Instructions for Box 1

—Individuals (sole proprietors, trusts, and estates)—
Enter the first four letters of your last name.

—Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).

4 Enter your business name (individual name for sole proprietors)

Enter your address

Enter your city, state, and ZIP code

EXHIBIT 3.10 – BLANK FORM 940, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN, PAGE 2

Form 940 (2000)										Page 2	
Part II Tax Due or Refund											
1 Gross FUTA tax. Multiply the wages from Part I, line 5, by .062										1	
2 Maximum credit. Multiply the wages from Part I, line 5, by .054										2	
3 Computation of tentative credit (Note: All taxpayers must complete the applicable columns.)											
(a) Name of state	(b) State reporting number(s) as shown on employer's state contribution returns	(c) Taxable payroll (as defined in state act)	(d) State experience rate period		(e) State ex- perience rate	(f) Contributions if rate had been 5.4% (col. (c) x .054)	(g) Contributions payable at experience rate (col. (c) x col. (e))	(h) Additional credit (col. (f) minus col. (g)) if 0 or less, enter -0-	(i) Contributions paid to state by 940 due date		
			From	To							
3a Totals . . . ▶											
3b Total tentative credit (add line 3a, columns (h) and (i) only—for late payments also see the instructions for Part II, line 6 ▶										3b	
6 Credit: Enter the smaller of the amount from Part II, line 2 or line 3b; or the amount from the worksheet in the Part II, line 6 instructions										6	
7 Total FUTA tax (subtract line 6 from line 1). If the result is over \$100, also complete Part III										7	
8 Total FUTA tax deposited for the year, including any overpayment applied from a prior year										8	
9 Balance due (subtract line 8 from line 7). Pay to the "United States Treasury". If you owe more than \$100, see Depositing FUTA Tax on page 3 of the separate instructions ▶										9	
10 Overpayment (subtract line 7 from line 8). Check if it is to be: ☐ Applied to next return or ☐ Refunded ▶										10	
Part III Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 7 is over \$100. See page 6 of the separate instructions.											
Quarter	First (Jan. 1–Mar. 31)	Second (Apr. 1–June 30)	Third (July 1–Sept. 30)	Fourth (Oct. 1–Dec. 31)	Total for year						
Liability for quarter											
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.											
Signature ▶		Title (Owner, etc.) ▶			Date ▶						
Form 940 (2000)											

EXHIBIT 3.11 – BLANK FORM 940-EZ, EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT (FUTA) TAX RETURN

Form 940-EZ Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return	OMB No. 1545-1110 2000												
▶ See separate instructions for Form 940-EZ for information on completing this form.														
Name (as distinguished from trade name) _____ Calendar year _____ Trade name, if any _____ Address and ZIP code _____ Employer identification number _____		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>T</td><td></td></tr> <tr><td>FF</td><td></td></tr> <tr><td>FD</td><td></td></tr> <tr><td>FP</td><td></td></tr> <tr><td>I</td><td></td></tr> <tr><td>T</td><td></td></tr> </table>	T		FF		FD		FP		I		T	
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Answer the questions under Who May Use Form 940-EZ on page 2. If you cannot use Form 940-EZ, you must use Form 940.														
A Enter the amount of contributions paid to your state unemployment fund. (See separate instructions.) . . . ▶ \$ _____														
B (1) Enter the name of the state where you have to pay contributions . . . ▶ _____ (2) Enter your state reporting number as shown on your state unemployment tax return ▶ _____														
If you will not have to file returns in the future, check here (see Who Must File in separate instructions), and complete and sign the return. ▶ ☐														
If this is an Amended Return, check here . . . ▶ ☐														
Part I Taxable Wages and FUTA Tax														
1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees		1												
2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶ _____		2												
3 Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. (See separate instructions.) The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation		3												
4 Total exempt payments (add lines 2 and 3)		4												
5 Total taxable wages (subtract line 4 from line 1) ▶		5												
6 FUTA tax. Multiply the wages on line 5 by .008 and enter here. (If the result is over \$100, also complete Part II.)		6												
7 Total FUTA tax deposited for the year, including any overpayment applied from a prior year		7												
8 Balance due (subtract line 7 from line 6). Pay to the "United States Treasury" ▶		8												
9 Overpayment (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return or ☐ Refunded ▶		9												
Part II Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 6 is over \$100.														
Quarter	First (Jan. 1 – Mar. 31)	Second (Apr. 1 – June 30)	Third (July 1 – Sept. 30)	Fourth (Oct. 1 – Dec. 31)	Total for year									
Liability for quarter														
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.														
Signature ▶ _____		Title (Owner, etc.) ▶ _____		Date ▶ _____										
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 10983G Form 940-EZ (2000)														
DETACH HERE														

Form 940-EZ(V) Department of the Treasury Internal Revenue Service	Form 940-EZ Payment Voucher	OMB No. 1545-1110 2000
Use this voucher only when making a payment with your return.		
Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940-EZ", and "2000" on your payment.		
1 Enter the first four letters of your last name (business name if partnership or corporation). 	2 Enter your employer identification number. 	3 Enter the amount of your payment.
Instructions for Box 1 —Individuals (sole proprietors, trusts, and estates)— Enter the first four letters of your last name. —Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).		
4 Enter your business name (individual name for sole proprietors) Enter your address _____ Enter your city, state, and ZIP code _____		

Forms 940 and 940-EZ Filing Requirements

You can file Form 940-EZ instead of Form 940 if you :

- paid unemployment taxes (“contributions”) to only one state,
- paid all state unemployment taxes by January 31, 2002 (February 11, if you deposited all FUTA tax when due) and
- all wages that were taxable for FUTA tax purposes were also taxable for your state’s unemployment tax.

For example, if you paid wages to corporate officers (these wages are subject to FUTA tax) in a state that exempts these wages from its unemployment taxes, you cannot use Form 940-EZ.

Form 940-EZ

Lines A and B

You must complete lines A and B and Part I. If your FUTA tax (line 6) is over \$100, you must also complete Part II.

Line A.

Enter the amount of your state unemployment contributions. If you are lucky enough to have been given a state experience rate of 0% enter “0% rate” in the space.

Line B(1).

Enter the state where you pay unemployment contributions.

Line B(2).

Enter your state reporting number.

Part I.

Taxable Wages and FUTA Tax

Line 1.

Enter the total payments made during the year for services of employees.

Line 2.

Enter payments that are exempt for FUTA purposes, see Publication 15 (under Special Rules for Various Types of Services and Payments). Do not enter payments over \$7,000 for each employee.

Line 3.

Enter the amount of taxable payments that were over the \$7,000 you paid each employee.

Line 6.

Compute the FUTA tax by multiplying the wages on Line 5 by .008.

Line 7.

FUTA tax deposited.

Line 8.

Balance due.

Line 9.

Overpayment.

Part II.

Record of Quarterly FUTA Tax Liability

Complete this part only if your FUTA tax on line 6 is over \$100. Your quarterly FUTA tax liability is figured by multiplying the wages subject to FUTA tax within the \$7,000 limit by .008. The total **must** match line 6 in part I.

Remember, this is your tax liability based on when you paid the wages and **not** on when the deposits were made.

Example of Completed Form 940-EZ

Sue Martin owner of Martin's Fabric Shop has two employees, whom she paid each Friday. She meets all the filing requirements for Form 940-EZ. She made contributions of \$352.00 to the state of Virginia and her state unemployment number is VA94371. Form 940-EZ has been completed using the following information (See Exhibit 3.12 on page 3-33):

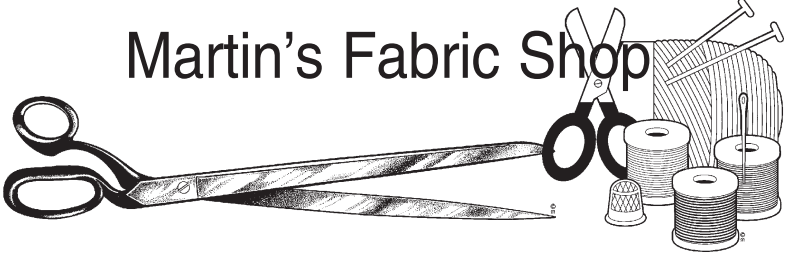
					
Martin's Fabric Shop					
Employee	1 st	2 nd	3 rd	4 th	Total
John	\$3,600	\$3,900	\$3,900	\$4,200	\$15,600
Mary	\$5,400	\$5,850	\$5,850	\$6,300	\$23,400

EXHIBIT 3.12 - FORM 940-EZ, SUE MARTIN EXAMPLE

Form 940-EZ Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return	OMB No. 1545-1110 2000												
▶ See separate instructions for Form 940-EZ for information on completing this form.														
Name (as distinguished from trade name) SUE MARTIN		Calendar year 12-31-2000												
Trade name, if any MARTIN'S FABRIC SHOP		Employer identification number 22-112234												
Address and ZIP code 1070 MOUNTAIN ST. SOUTH PORT, VA 22711		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>T</td><td></td></tr> <tr><td>FF</td><td></td></tr> <tr><td>FD</td><td></td></tr> <tr><td>FP</td><td></td></tr> <tr><td>I</td><td></td></tr> <tr><td>T</td><td></td></tr> </table>	T		FF		FD		FP		I		T	
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Answer the questions under **Who May Use Form 940-EZ** on page 2. If you cannot use Form 940-EZ, you must use Form 940.

A Enter the amount of contributions paid to your state unemployment fund. (See separate instructions.) . . . ▶ \$ 352.00

B (1) Enter the name of the state where you have to pay contributions . . . ▶ VIRGINIA
 (2) Enter your state reporting number as shown on your state unemployment tax return ▶ VA 94371

If you will not have to file returns in the future, check here (see Who Must File in separate instructions), and complete and sign the return. ▶ ☐

If this is an Amended Return, check here . . . ▶ ☐

Part I Taxable Wages and FUTA Tax

1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees	1	39,000	00
2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶	2		
3 Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. (See separate instructions.) The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation	3	25,000	00
4 Total exempt payments (add lines 2 and 3)	4	25,000	00
5 Total taxable wages (subtract line 4 from line 1) ▶	5	14,000	00
6 FUTA tax. Multiply the wages on line 5 by .008 and enter here. (If the result is over \$100, also complete Part II.)	6	112	00
7 Total FUTA tax deposited for the year, including any overpayment applied from a prior year	7	112	00
8 Balance due (subtract line 7 from line 6). Pay to the "United States Treasury" ▶	8		
9 Overpayment (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return or ☐ Refunded ▶	9		

Part II Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 6 is over \$100.

Quarter	First (Jan. 1 - Mar. 31)	Second (Apr. 1 - June 30)	Third (July 1 - Sept. 30)	Fourth (Oct. 1 - Dec. 31)	Total for year
Liability for quarter	72.00	40.00			112.00

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.

Signature ▶ Sue Martin Title (Owner, etc.) ▶ owner Date ▶ 1/31/2001

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 10983G Form 940-EZ (2000)

DETACH HERE

Form 940-EZ(V) Department of the Treasury Internal Revenue Service	Form 940-EZ Payment Voucher	OMB No. 1545-1110 2000
Use this voucher only when making a payment with your return.		
Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940-EZ", and "2000" on your payment.		
1 Enter the first four letters of your last name (business name if partnership or corporation). 	2 Enter your employer identification number. 	3 Enter the amount of your payment.
Instructions for Box 1 —Individuals (sole proprietors, trusts, and estates)— Enter the first four letters of your last name. —Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).		
4 Enter your business name (individual name for sole proprietors) Enter your address Enter your city, state, and ZIP code 		

EXHIBIT 3.13 – FORM 940, APPLIED FOR (DATE) EXAMPLE

Form 940 Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return ▶ See separate instructions for Form 940 for information on completing this form.	OMB No. 1545-0028 2000 <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%;">T</td><td style="width: 50%;"></td></tr> <tr><td>FF</td><td></td></tr> <tr><td>FD</td><td></td></tr> <tr><td>FP</td><td></td></tr> <tr><td>I</td><td></td></tr> <tr><td>T</td><td></td></tr> </table>	T		FF		FD		FP		I		T	
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T														
☐ Name (as distinguished from trade name) ☐ Calendar year ☐ Trade name, if any ☐ Address and ZIP code ☐ Employer identification number APPLIED FOR – (DATE)														
A Are you required to pay unemployment contributions to only one state? (If "No," skip questions B and C.) ☐ Yes ☐ No B Did you pay all state unemployment contributions by January 31, 2001? ((1) If you deposited your total FUTA tax when due, check "Yes" if you paid all state unemployment contributions by February 12, 2001. (2) If a 0%														

Tips for Completing Forms 940 or 940-EZ

Always use a preaddressed form if available. This insures faster and more accurate processing. However, if your preaddressed form is not available, do not delay filing because you could be charged a late filing penalty. Using a current year form, enter your name, trade name, address, ZIP code and your EIN. If you have applied for an EIN, but have not received it, write "Applied for" and the date you applied in the space provided for the number (See Exhibit 3.13 above.)

Summary

In this lesson you learned who must pay FUTA tax, what wages are subject to this tax, how to figure the amount of FUTA tax due and when the tax must be deposited. You also learned how to complete Form 940-EZ. Important points to remember include:

- when Form 940 or 940-EZ is due,
- what the deposit requirements are **and**
- that only employers pay FUTA tax.

Exercises

Exercise 1

Mr. Wilson opened a business in January 2000 and hired six-employees. In the first quarter he paid the employees each week for 13 weeks. Use the following information to determine:

- (A) How much of the total wages is subject to FUTA tax? \$____
- (B) What is the first quarter FUTA tax liability? \$_____
- (C) When is the deposit due date? _____

Mr. Wilson's Business	
Employee	Wages Paid in Quarter
R. Riding	\$ 4,500
M. Lamb	8,100
J. Nimble	3,400
C. Moon	5,600
C. Fiddle	4,900
P. Son	5,200
Total Wages	\$31,700

Assume that the same facts are true for the second quarter (that is, there are 13 paydays; each employee's wages remain the same and no new employees are hired). Use the information in the previous table to determine:

- (D) How much of the total wages is subject to FUTA tax?
\$_____
- (E) What is the second quarter FUTA tax liability? \$_____
- (F) Is a deposit due? ☐ YES ☐ NO
- (G) When an employer pays state contributions after the due date (or extended due date) of Form 940, the credit for the state contributions is ____% of the amount that would be allowed if the employer had paid the state contributions by the due date.

(Answers are found on page A-6.)

Exercise 2

Complete Form 940-EZ for ACME Inc., using Exhibit 3.14 - BLANK FORM 940-EZ FOR EXERCISE 2 on page 3-37 and the following information:

State reporting number: 12345

State taxable payroll: \$18,200

Experience rate: 2.7% from January 1 to December 31, 2000.

During 2000 and before the date of Form 940-EZ, ACME paid \$491.40 to Michigan for unemployment tax.

ACME, Inc.,
EIN: 10-7654321
123 First St.
Cedar, MI 49621

ACME, Inc., Deposits					
Employee	Annual Wage	Quarter			
		1 st	2 nd	3 rd	4 th
Ben Wood	\$12,600.00	\$3,150.00	\$2,850.00	\$1,000.00	-0-
Mary Birch	9,200.00	2,300.00	2,300.00	1,400.00	\$1,000.00
John Cane	4,200.00	1,050.00	1,050.00	1,050.00	1,050.00
Totals	26,000.00	6,500.00	6,200.00	3,450.00	2,050.00
x.008		\$52.00	49.60	27.60	16.40
Cumulative		\$52.00	101.60	27.60	44.00
Amount Deposited		-0-	101.60	-0-	-0-

- A. When must ACME make deposit(s)? _____
- B. How much must be deposited? \$_____
- C. How much must be paid with the return? \$_____

(Answers are found on pages A-6 and A-7.)

EXHIBIT 3.14 - BLANK FORM 940-EZ FOR EXERCISE 2

Form 940-EZ Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return	OMB No. 1545-1110 2000												
▶ See separate instructions for Form 940-EZ for information on completing this form.														
Name (as distinguished from trade name) _____ Trade name, if any _____ Address and ZIP code _____	Calendar year _____ Employer identification number _____	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td>T</td><td></td></tr> <tr><td>FF</td><td></td></tr> <tr><td>FD</td><td></td></tr> <tr><td>FP</td><td></td></tr> <tr><td>I</td><td></td></tr> <tr><td>T</td><td></td></tr> </table>	T		FF		FD		FP		I		T	
T														
FF														
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T														
Answer the questions under Who May Use Form 940-EZ on page 2. If you cannot use Form 940-EZ, you must use Form 940. A Enter the amount of contributions paid to your state unemployment fund. (See separate instructions.) . . . ▶ \$ _____ B (1) Enter the name of the state where you have to pay contributions . . . ▶ _____ (2) Enter your state reporting number as shown on your state unemployment tax return ▶ _____ If you will not have to file returns in the future, check here (see Who Must File in separate instructions), and complete and sign the return. ▶ ☐ If this is an Amended Return, check here ▶ ☐														
Part I Taxable Wages and FUTA Tax														
1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees	1													
2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶ _____ _____ _____	2													
3 Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. (See separate instructions.) The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation	3													
4 Total exempt payments (add lines 2 and 3)	4													
5 Total taxable wages (subtract line 4 from line 1) ▶	5													
6 FUTA tax. Multiply the wages on line 5 by .008 and enter here. (If the result is over \$100, also complete Part II.)	6													
7 Total FUTA tax deposited for the year, including any overpayment applied from a prior year	7													
8 Balance due (subtract line 7 from line 6). Pay to the "United States Treasury" ▶ If you owe more than \$100, see Depositing FUTA tax in separate instructions.	8													
9 Overpayment (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return or ☐ Refunded ▶	9													
Part II Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 6 is over \$100.														
Quarter	First (Jan. 1 – Mar. 31)	Second (Apr. 1 – June 30)	Third (July 1 – Sept. 30)	Fourth (Oct. 1 – Dec. 31)	Total for year									
Liability for quarter														
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.														
Signature ▶ _____		Title (Owner, etc.) ▶ _____		Date ▶ _____										
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 10983G Form 940-EZ (2000)														
DETACH HERE														
Form 940-EZ(V) Form 940-EZ Payment Voucher														
Department of the Treasury Internal Revenue Service					OMB No. 1545-1110 2000									
Use this voucher only when making a payment with your return.														
Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940-EZ", and "2000" on your payment.														
1 Enter the first four letters of your last name (business name if partnership or corporation). 	2 Enter your employer identification number. 	3 Enter the amount of your payment. 												
Instructions for Box 1 —Individuals (sole proprietors, trusts, and estates)— Enter the first four letters of your last name. —Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).			4 Enter your business name (individual name for sole proprietors) _____ Enter your address _____ Enter your city, state, and ZIP code _____											

Notes

Lesson 4

Business Use of Your Home

Introduction

The purpose of this lesson is to provide information on figuring and claiming the deduction for *business use of your home*. The term **home** can include a house, apartment, condominium, mobile home or boat. It also includes structures on the property, such as an unattached garage, studio, barn or greenhouse.



Objectives

1. Determine if you are eligible for the *business use of the home* deduction.
2. Complete Form 8829, EXPENSES FOR THE BUSINESS USE OF YOUR HOME.



Qualifying for a Deduction



To deduct expenses related to the business use of part of your home, you must meet specific requirements. Even then, the deduction may be limited. To qualify to claim expenses for the *business use of your home*, you must meet the following tests:

- your use of the business part of your home must be:
 - exclusive (see Exceptions to exclusive use, later),
 - regular and
 - for your business, and
- the business part of your home must be one of the following:
 - your principal place of business,
 - a place where you meet with patients, clients or customers in the normal course of your business, or
 - a separate structure (not attached to your home) you use in connection with your business.

Exclusive Use

To qualify under the exclusive use test, you must use a specific area of your home **only** for your trade or business. The area used for business can be a room or other separately identifiable space. The space does not need to be marked off by a permanent partition.

You do **not** meet the requirements of the exclusive use test if you use the area in question both for business and for personal purposes.

Example: You are an attorney and use a den in your home to write legal briefs and prepare client tax returns. Your family also uses the den for recreation. Since the den is not used exclusively in your profession, you **cannot** claim a business deduction for its use.

Exceptions to Exclusive Use

You do **not** have to meet the exclusive use test if:

- you use part of your home for the storage of inventory or product samples, or
- you use part of your home as a day-care facility.

Regular Use

To qualify under the regular use test, you must use a specific area of your home for business on a continuing basis. You do not meet the test if your business use of the area is only occasional or incidental, even if you do not use that area for any other purpose.

Principal Place of Business

You can have more than one business location, including your home, for a single trade or business. One way to qualify to deduct the expenses for the *business use of your home* is if your home is your principal place of business. To determine this, you must consider all of the facts and circumstances.

Your home office will qualify as your principal place of business for deducting expenses for its use if:

- you use it exclusively and regularly for administrative or management activities of your trade or business and
- you have no other fixed location where you conduct substantial administrative or management activities of your trade or business.

Administrative or Managerial Activities

The following activities that are administrative or managerial in nature:

- billing customers,
- keeping books and records,
- ordering supplies,
- setting up appointments and
- forwarding orders or writing reports.

The following activities will **not** disqualify your home office as your principal place of business:

- employing others to conduct your administrative or management activities at locations other than your home,
- conducting administrative or management activities at places that are not fixed locations of your business, such as in a car or a hotel room,
- occasionally conducting minimal administrative or management activities at a fixed location outside your home,
- conducting substantial nonadministrative or nonmanagement business activities at a fixed location outside your home and
- having suitable space to conduct administrative or management activities outside your home, but choosing to use your home office for those activities instead.

Example A: Jon is a self-employed plumber. Most of Jon's time is spent at customers' homes and offices installing and repairing plumbing. He has a small office in his home that he uses exclusively and regularly for the administrative or management details

of his business, such as phoning customers, ordering supplies and keeping his books. Jon does not do his own billing. He uses a local bookkeeping service to bill his customers.

Jon's home office qualifies as his principal place of business for deducting expenses for its use. He uses the home office for the administrative or managerial activities of his plumbing business and he has no other fixed location where he conducts these administrative or managerial activities. His choice to have his billing done by another company does not disqualify his home office as his principal place of business. Because he meets all the qualifications, including principal place of business, he can deduct expenses (to the extent of the deduction limit) for the *business use of his home*.



Example B: Clyde is a self-employed anesthesiologist. He spends the majority of his time administering anesthesia and postoperative care in three local hospitals. One of the hospitals provides him with a small-shared office where he could conduct administrative or management activities. Clyde does not use the office the hospital provides. He uses a room in his home, that he has converted, as an office. He uses this room exclusively and regularly to conduct all the following activities:

- contacting patients, surgeons and hospitals regarding scheduling,
- preparing for treatments and presentations,
- maintaining billing records and patient logs,
- satisfying continuing medical education requirements and
- reading medical journals and books.

Clyde's home office qualifies as his principal place of business for deducting expenses for its use. He conducts administrative or management activities for his business as an anesthesiologist there and he has no other fixed location where he conducts administrative or management activities for this business. His choice to use his home office instead of one provided by the hospital does not disqualify his home office as his principal place of business. His performance of substantial nonadministrative or nonmanagement activities at fixed locations outside his home also does not disqualify his home office as his principal place of business. Because he meets all the qualifications, including principal place of business, he can deduct expenses (to the extent of the deduction limit) for the *business use of his home*.

Meeting Place for Customers



If you do not meet the principal place of business test, your home office may qualify if you meet or deal with patients, clients or customers in your home in the normal course of your business, even though you also carry on business at another location. You can deduct your expenses for the part of your home used exclusively and regularly for business if:

- you physically meet with patients, clients or customers at your home **and**
- the use of your home is substantial and integral to the conduct of your business.

Using your home for occasional meetings and telephone calls will not qualify you to deduct expenses for the business use of your home.

Separate Structure

You can deduct expenses for a separate freestanding structure, such as a studio, garage, storage shed or barn, if you use it exclusively and regularly for your business. The structure does not have to be your principal place of business or a place where you meet patients, clients or customers.

Business Percentage

Most expenses related to the *business use of your home* are limited to the percentage of your home used for business (business percentage).

To find the business percentage, compare the size of the part of your home that you use for business to your whole house. You can use any reasonable method to determine the business percentage. The following are two commonly used methods for figuring the percentage.

Area Method

Divide the area used for business by the total area of your home.

Example: Your office is 240 square feet. Your home is 1200 square feet. Your office is 20% (240/1200) of the total area of your home. Your business percentage is 20%.



Number-of-Rooms Method

Divide the number of rooms used for business by the total number of rooms in your home. You can use this method if the rooms in your home are all about the same size.

Example: Peggy has an art studio in her home. She is allowed to take a deduction for the *business use of her home*. The rooms in her house are all about the same size. There are ten rooms and she uses one for a studio. Her business-use percentage is 10%.

Note: Use lines 1-7 of Form 8829, *EXPENSES FOR THE BUSINESS USE OF YOUR HOME*, to figure your business percentage.

Types of Expenses

There are two types of expenses related to using your home for business.

1. Expenses related to the business activity in the home but not to the use of the home itself.
2. Expenses for the *business use of the home*.

Expenses for the *business use of the home* are divided into three categories.

1. Direct expenses
2. Indirect expenses
3. Unrelated expenses

Expenses Not Related to Business Use of the Home

Business expenses related to the business activity in the home but not to the use of the home itself are deductible in full on Schedule C (Form 1040) or Schedule F (Form 1040). These expenses are not limited to the *business use of the home* percentage or the deduction limit (discussed later). Examples of some of these expenses include the following:

- advertising,
- business taxes,
- car and truck expenses,
- salaries,
- supplies and
- travel.

Expenses for Business Use of Your Home

You must divide the expenses of operating your home between personal and business use. The part of a home operating expense that you can use to figure your deduction depends on:

- whether the expense is direct, indirect or unrelated **and**
- the percentage of your home that is used for business.

Direct Expenses

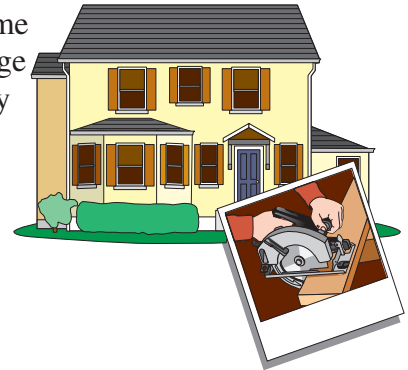
Expenses only for the business part of your home are generally deductible in full unless subject to the deduction limit, discussed later.

Example: Painting or repairs only in the area used for business.

Indirect Expenses

Expenses for running your entire home are deductible based on the percentage of your home used for business. They may also be subject to the deduction limit, discussed later.

Examples: Insurance, utilities and general repairs.



Unrelated Expenses

Expenses for the parts of your home not used for business are **not** deductible; (i.e. lawn care, painting a room not used for business).

Example: Jeff is allowed to take a deduction for the *business use of his home*. He has the following expenses:

Landscaping	\$1,500
Painting the business office	700
Utilities for the entire house	1,060
Repairs to the roof of the house	500
Repairs to the business office	100
Painting the bedroom	400

Painting the bedroom and landscaping are unrelated expenses. They cannot be deducted. The painting and repairs to the office are direct expenses and can be deducted in full. The repairs to the roof and utilities are indirect expenses. They are divided between business and personal parts of the house. The business part is deductible.

Examples of Expenses

Certain expenses are deductible whether or not you use your home for business. However, if you qualify to claim *business use of the home* expenses, you can use the business part of these expenses to figure your business use of the home deduction.

These expenses are:

- real estate taxes,
- deductible mortgage interest and
- casualty losses.

Other expenses are deductible only if you use your home for business. These expenses generally include (but are not limited to):

- insurance,
- rent,
- repairs,
- utilities and services and
- depreciation on your home.

Real Estate Taxes: To figure the business part of your real estate taxes, multiply the real estate taxes paid by the percentage of your home used for business.

Deductible Mortgage Interest: To figure the business part of your deductible mortgage interest, multiply this interest by the percentage of your home used for business.

Casualty Losses: If you have a casualty loss on your home that you use for business, treat the casualty loss as a direct expense, an indirect expense or an unrelated expense, depending on the property affected. If the loss is on a part of the property used for both business and personal purposes, use only the business portion to figure the deduction.

Insurance: You can deduct the cost of insurance that covers the business part of your home. However, if your insurance premium gives you coverage for a period that extends past the end of your tax year, you can deduct only the business percentage of the part of the premium that gives you coverage for your tax year.

Rent: If you rent, rather than own, a home and meet the requirements for *business use of the home*, you can deduct part of the rent you pay. To figure your deduction multiply your rent payments by the percentage of your home used for business.

Repairs: The cost of repairs and supplies that relate to your business, including labor (other than your own labor), is a deduct

ible expense. For example, a furnace repair benefits the entire home. If you use 10% of your home for business, you can deduct 10% of the cost of the furnace repair.

Utilities and services: You may deduct the business portion of your utilities and services, such as gas, electricity, trash removal and cleaning services. Generally, the amount deductible is the business-use percentage multiplied by the utility expense.

The basic local telephone service charge, including taxes, for the first telephone line into your home is not deductible. However, charges for business long-distance phone calls on that line, as well as, the cost of a second line into your home used exclusively for business, are deductible business expenses. Deduct these charges on either Schedule C (Form 1040) or Schedule F (Form 1040). They are not part of your home office deduction.

Depreciation: Some expenses cannot be deducted all at once. The cost of any business property that lasts for more than one year must generally be deducted over a number of years. The annual expense is called depreciation. Depreciation reflects the reduction in value of the property.

To calculate depreciation on the business part of your home, you need to determine the depreciable basis of your home. Generally the depreciable basis of your home will be the lesser of:

1. the fair market value of your home (excluding land) on the date you first use it for business **or**
2. the purchase price (excluding land) plus any major improvements you made and minus any casualty losses or other changes to basis.

To determine how much of the depreciable basis you can use to compute your depreciation deduction, multiply the depreciable basis by the business-use percentage.

Example: Barry owns an accounting service. He uses 10% of his home as a business office. When Barry started his business, his home was worth \$60,000. The home cost \$50,000 and the land \$10,000. The depreciable basis of the home is \$50,000. The depreciable basis of the business part of the home is \$5,000 (\$50,000 depreciable basis multiplied by 10% business-use percentage).

For information on how to calculate depreciation, see INSTRUCTIONS TO FORM 8829 or IRS Publication 946, *How To Depreciate Property*.

Example: The following example shows how to compute the business percentage of the various expenses using Form 8829, EXPENSES FOR THE BUSINESS USE OF YOUR HOME.

Renee operates a private detective agency in her home. She is allowed to take a deduction for expenses related to the *business use of the home*. Renee's business-use percentage is 20 percent. She has the following expenses:

Real estate taxes	\$1000
Dues	50
Repairs to the floor of the office	200
Utilities	800
Transportation expenses	150
Insurance premiums on entire house	600
Mortgage Interest	700
Depreciation on entire house	700
Advertising	100
Painting the office	400
Business cards	50
Roof repair	100

Exhibit 4.1 on page 4-11 shows lines 9-30, Form 8829, EXPENSES FOR THE BUSINESS USE OF YOUR HOME, for Renee. Dues, transportation, advertising and business cards are expenses related to the business activity in the home but not to the *business use of the home* itself.

EXHIBIT 4.1 - EXPENSES RELATED TO THE BUSINESS USE OF THE HOME, FOR RENEE EXAMPLE

Form 8829 Department of the Treasury Internal Revenue Service (99)	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1266 2000 Attachment Sequence No. 66
Name(s) of proprietor(s) RENEE		Your social security number 111 11 1122
Part I Part of Your Home Used for Business		
1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions		1
2 Total area of home		2
3 Divide line 1 by line 2. Enter the result as a percentage		3 %
• For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7.		
4 Multiply days used for day care during year by hours used per day		4 hr.
5 Total hours available for use during the year (366 days × 24 hours). See instructions		5 8,784 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount		6
7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3		7 20 %
Part II Figure Your Allowable Deduction		
8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9-20.		8
		(a) Direct expenses (b) Indirect expenses
9 Casualty losses. See instructions		9
10 Deductible mortgage interest. See instructions		10 700 -
11 Real estate taxes. See instructions		11 4,000 -
12 Add lines 9, 10, and 11		12 4,700 -
13 Multiply line 12, column (b) by line 7		13
14 Add line 12, column (a) and line 13		14 340 -
15 Subtract line 14 from line 8. If zero or less, enter -0-		15
16 Excess mortgage interest. See instructions		16
17 Insurance		17 600 -
18 Repairs and maintenance		18 600 - 100 -
19 Utilities		19 800 -
20 Other expenses. See instructions		20
21 Add lines 16 through 20		21 600 - 1,500 -
22 Multiply line 21, column (b) by line 7		22 300 -
23 Carryover of operating expenses from 1999 Form 8829, line 41		23
24 Add line 21 in column (a), line 22, and line 23		24 900 -
25 Allowable operating expenses. Enter the smaller of line 15 or line 24		25
26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15		26
27 Excess casualty losses. See instructions		27
28 Depreciation of your home from Part III below		28 140 -
29 Carryover of excess casualty losses and depreciation from 1999 Form 8829, line 42		29
30 Add lines 27 through 29		30 140 -
31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30		31
32 Add lines 14, 25, and 31		32
33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B		33
34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶		34
Part III Depreciation of Your Home		
35 Enter the smaller of your home's adjusted basis or its fair market value. See instructions		35
36 Value of land included on line 35		36
37 Basis of building. Subtract line 36 from line 35		37
38 Business basis of building. Multiply line 37 by line 7		38
39 Depreciation percentage. See instructions		39 %
40 Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions		40 140 -
Part IV Carryover of Unallowed Expenses to 2001		
41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-		41
42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-		42
For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13232M Form 8829 (2000)		

Deduction Limit

If your gross income from the business operated or managed from your home equals or exceeds your total business expenses, you can deduct all your business expenses. If your gross income from that use is less than your total business expenses, your deduction for certain expenses for the *business use of your home* is limited.

Gross income is generally the total sales of your business less cost of goods sold.

Your deduction of otherwise nondeductible expenses, such as insurance, utilities and depreciation (with depreciation taken last), is limited to the gross income from the *business use of your home* minus the sum of the following:

- The business part of expenses you could deduct even if you did not use your home for business (such as mortgage interest, real estate taxes and casualty and theft losses).
- The business expenses that relate to the business activity in the home (for example, salaries or supplies), but not to the use of the home itself.

Example: Your deduction limit is \$500. Your otherwise nondeductible expenses related to the *business use of the home* are \$800. The deduction for these expenses is limited to \$500.

Carryforward

Expenses that cannot be deducted because of the deduction limit can be carried forward to later years, subject to the deduction limit in those years.

Example: Computing the deduction and carryforward.

Renee has gross income of \$1,500.00 from her private detective agency. She has \$350 in business expenses that do not relate to the *business use of the home*. Her tentative profit is \$1,150 (\$1,500-\$350). Using figures from Exhibit 4.1, the business portion of her expenses are:

Mortgage interest (\$700 x 20%)	\$140
Real estate taxes (\$1,000) x 20%)	200
Direct expenses	600
Other indirect expenses	300
Depreciation	140

Renee can take a deduction of \$1,150 for expenses related to the *business use of the home*. The remaining \$230 (including all of the depreciation of \$140) is not deductible but can be carried forward. (See Exhibit 4.2 on page 4-13.)

EXHIBIT 4.2 - FORM 8829, EXPENSES NOT RELATED TO USE OF THE HOME, FOR RENEE EXAMPLE

Form 8829 Department of the Treasury Internal Revenue Service (99)	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1266 2000 Attachment Sequence No. 66 Your social security number 111 11 1122
Name(s) of proprietor(s) RENEE		
Part I Part of Your Home Used for Business		
1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions 2 Total area of home 3 Divide line 1 by line 2. Enter the result as a percentage. • For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7. 4 Multiply days used for day care during year by hours used per day 5 Total hours available for use during the year (366 days × 24 hours). See instructions 6 Divide line 4 by line 5. Enter the result as a decimal amount 7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3.	1 2 3 4 5 6 7	500 2,500 20 % 20 %
Part II Figure Your Allowable Deduction		
8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9-20. 9 Casualty losses. See instructions 10 Deductible mortgage interest. See instructions 11 Real estate taxes. See instructions 12 Add lines 9, 10, and 11. 13 Multiply line 12, column (b) by line 7. 14 Add line 12, column (a) and line 13. 15 Subtract line 14 from line 8. If zero or less, enter -0- 16 Excess mortgage interest. See instructions 17 Insurance 18 Repairs and maintenance 19 Utilities 20 Other expenses. See instructions 21 Add lines 16 through 20. 22 Multiply line 21, column (b) by line 7. 23 Carryover of operating expenses from 1999 Form 8829, line 41. 24 Add line 21 in column (a), line 22, and line 23. 25 Allowable operating expenses. Enter the smaller of line 15 or line 24. 26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15. 27 Excess casualty losses. See instructions. 28 Depreciation of your home from Part III below. 29 Carryover of excess casualty losses and depreciation from 1999 Form 8829, line 42. 30 Add lines 27 through 29. 31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30. 32 Add lines 14, 25, and 31. 33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B. 34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶	8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34	1,150 - 340 - 810 - 600 - 100 - 800 - 600 - 1,500 - 300 - 900 - 810 - - 140 - 140 - - 1,150 - 1,150 -
Part III Depreciation of Your Home		
35 Enter the smaller of your home's adjusted basis or its fair market value. See instructions 36 Value of land included on line 35 37 Basis of building. Subtract line 36 from line 35. 38 Business basis of building. Multiply line 37 by line 7. 39 Depreciation percentage. See instructions 40 Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions	35 36 37 38 39 40	 140 -
Part IV Carryover of Unallowed Expenses to 2001		
41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0- 42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-	41 42	90 - 140 -
For Paperwork Reduction Act Notice, see page 4 of separate instructions.		

Where to Deduct Expenses Related to the Business Use of the Home

Self-employed individuals show their business income and expenses on Schedule C (Form 1040), PROFIT OR LOSS FROM BUSINESS, or on Schedule F (Form 1040), PROFIT OR LOSS FROM FARMING. If you file Schedule C, expenses related to the business use of the home are figured on Form 8829, EXPENSES FOR BUSINESS USE OF YOUR HOME and you report the deductible amount on line 30 of Schedule C. If you file Schedule F, figure your deduction using the worksheet at the end of Publication 587, BUSINESS USE OF YOUR HOME, and report the deductible amount on line 34 of Schedule F. Write “*Business Use of Home*” on the dotted line beside the entry.

Caution: Do not take a double deduction for real estate taxes and mortgage interest. If you report an amount for the business portion of the taxes and interest on Schedule C (or Schedule F), make sure you report only the personal portion on Schedule A, ITEMIZED DEDUCTIONS. The amounts reported on Schedule C (or F) and Schedule A should be the total interest and taxes you paid for the year.

Note: Employees must itemize deductions on Schedule A (Form 1040) in order to claim the deduction for business use of their home. See Publication 587 for more information.

Sale or Exchange of Your Home

If you sell or exchange your home, you may be able to exclude up to \$250,000 (500,000 for certain married persons filing a joint return) of the capital gain on the sale. However, you cannot exclude any part of your gain that is equal to any depreciation allowed or allowable for the *business use of your home* after May 6, 1997. For more information on the sale or exchange of a home, see Publication 523, SELLING YOUR HOME.

Depreciation

If you used any part of your home for business, you must adjust the basis of your home for any depreciation that was allowable for its business use, even if you did not claim it.

Recordkeeping

You must keep records that provide the information needed to figure your deductions for the *business use of your home*. You should keep all canceled checks, receipts, invoices and other evidence of expenses you paid.

Your records must show the following information:

- The part of your home you use for business.
- That you use the part of the home exclusively and regularly for business and it is one of the following:
 - your principal place of business or
 - a place where you meet patients, clients or customers in the ordinary course of your business or
 - a separate structure.
- The depreciation and expenses for the business part of your home.

Exercise

In 2000, Frank started a tax preparation business in his home. He meets the qualifications to deduct *business use of his home*. His house is 2,800 square feet and his office space is 280 square feet. He has the following expenses:

Mortgage interest	\$10,000
Advertising	200
Real estate taxes	2,500
Home owners insurance	500
Office supplies	600
Utilities	2,200
Paint (for office only)	200
General repairs (for home)	2,000

The fair market value of the house, which is less than the cost, is \$250,000, and the value of the land is \$40,000. The depreciation percentage is 2.461. His tentative profit on Schedule C is \$30,000.

Compute the *business use of home* deduction for Frank using Form 8829, EXPENSES FOR THE BUSINESS USE OF YOUR HOME. (See Exhibit 4.3 on page 4-16.)

(Answer on page A-7, Exhibit 4.4 - Filled-in Form 8829.)

EXHIBIT 4.3 - BLANK FORM 8829 FOR EXERCISE

Form 8829 Department of the Treasury Internal Revenue Service (99)	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1266 2000 Attachment Sequence No. 66
Name(s) of proprietor(s)		Your social security number

Part I Part of Your Home Used for Business

1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions	1	
2 Total area of home	2	
3 Divide line 1 by line 2. Enter the result as a percentage	3	%
• For day-care facilities not used exclusively for business, also complete lines 4–6. • All others, skip lines 4–6 and enter the amount from line 3 on line 7.		
4 Multiply days used for day care during year by hours used per day	4	hr.
5 Total hours available for use during the year (366 days × 24 hours). See instructions	5	8,784 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount	6	
7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ▶	7	%

Part II Figure Your Allowable Deduction

8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9–20.	8	
9 Casualty losses. See instructions	9	
10 Deductible mortgage interest. See instructions	10	
11 Real estate taxes. See instructions	11	
12 Add lines 9, 10, and 11.	12	
13 Multiply line 12, column (b) by line 7	13	
14 Add line 12, column (a) and line 13.	14	
15 Subtract line 14 from line 8. If zero or less, enter -0-	15	
16 Excess mortgage interest. See instructions	16	
17 Insurance	17	
18 Repairs and maintenance	18	
19 Utilities	19	
20 Other expenses. See instructions	20	
21 Add lines 16 through 20	21	
22 Multiply line 21, column (b) by line 7	22	
23 Carryover of operating expenses from 1999 Form 8829, line 41	23	
24 Add line 21 in column (a), line 22, and line 23	24	
25 Allowable operating expenses. Enter the smaller of line 15 or line 24	25	
26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15.	26	
27 Excess casualty losses. See instructions	27	
28 Depreciation of your home from Part III below	28	
29 Carryover of excess casualty losses and depreciation from 1999 Form 8829, line 42	29	
30 Add lines 27 through 29	30	
31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30	31	
32 Add lines 14, 25, and 31	32	
33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B	33	
34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶	34	

Part III Depreciation of Your Home

35 Enter the smaller of your home's adjusted basis or its fair market value. See instructions	35	
36 Value of land included on line 35	36	
37 Basis of building. Subtract line 36 from line 35	37	
38 Business basis of building. Multiply line 37 by line 7	38	
39 Depreciation percentage. See instructions	39	%
40 Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions	40	

Part IV Carryover of Unallowed Expenses to 2001

41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-	41	
42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-	42	

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13232M Form 8829 (2000)

Lesson 5

Tax Incentives for Employers

Introduction

This lesson provides information on how small business owners can participate in both the public and private effort to help move individuals with special employment needs and long-term family assistance recipients into jobs in the private sector. By actively recruiting from these groups, you can expand your job applicant pool of entry-level workers and, at the same time, make an important contribution to a national effort that affects your community. By hiring and retaining these individuals, you can receive tax savings with the **work opportunity credit** of as much as \$2,400 per employee for first-year wages paid. With the **welfare-to-work credit** you can receive as much as \$8,500 per employee over a 2-year period.

Objectives

At the end of this lesson you will be able to:

1. Name the eight targeted groups and dates of eligibility for the work opportunity credit.
2. Name the group and dates of eligibility for the welfare-to-work credit.
3. Prepare the IRS and Department of Labor forms required for pre-screening and certification of the work opportunity and welfare-to-work credits.

References

Publication 334, TAX GUIDE FOR SMALL BUSINESS (FOR INDIVIDUALS WHO USE SCHEDULE C OR C-EZ)

Publication 954, TAX INCENTIVES FOR EMPOWERMENT ZONES AND OTHER DISTRESSED COMMUNITIES

Form 3800, GENERAL BUSINESS CREDIT

Form 5884, WORK OPPORTUNITY CREDIT

Form 8850, PRE-SCREENING NOTICE AND CERTIFICATION REQUEST FOR THE WORK OPPORTUNITY AND WELFARE-TO-WORK CREDITS

Form 8861, WELFARE-TO-WORK CREDIT

U.S. Department of Labor ETA-9061, INDIVIDUAL CHARACTERISTICS FORM, WORK OPPORTUNITY CREDIT AND WELFARE-TO-WORK CREDIT

U.S. Department of Labor ETA-9062, CONDITIONAL CERTIFICATION, WORK OPPORTUNITY AND WELFARE-TO-WORK TAX CREDITS

Work Opportunity Credit

The work opportunity credit provides businesses with an incentive to hire individuals from groups that have a particularly high unemployment ratio or other special needs. Your business does not have to be designated an empowerment zone, enterprise community or renewal community (see Publication 954, *Tax Incentives for Empowerment Zones and Other Distressed Communities*) to qualify for this credit. You can claim the credit if you pay or incur “qualified first-year wages” to a “targeted group employee” who began work for you after September 1997 and before January 1, 2002.

Targeted Group Employee

A targeted group employee is any employee who has been certified by your state employment security agency (SESA) as a:

1. Recipient of assistance under Temporary Assistance for Needy Families (TANF),
2. Veteran,
3. Ex-felon,
4. High-risk youth,
5. Vocational rehabilitation referral,
6. Summer youth employee,
7. Food stamp recipient or
8. Supplemental security income (SSI) recipient.

Exhibit 5.1 on page 5-3 lists their qualifications and necessary documentation.

EXHIBIT 5.1 – WORK OPPORTUNITY CREDIT DEFINITIONS

Applicant Target Groups	Qualifications	Documentation*
Qualified TANF recipient	The applicant has received TANF benefits for any nine of the last 18 months.	SESA staff will verify eligibility.
Qualified veteran	The applicant is a veteran who served at least 180 days of active duty, has not been on active duty during the 90 days after the hire date and has received food stamps at least three consecutive months within the last 15 months.	Military Discharge Papers (DD214), while food stamps will be verified by SESA staff.
Qualified ex-felons	The applicant is a felon who was convicted or released from prison in the past year and who was a member of a low-income family during the last six months.	Documentation that shows conviction and/or release dates. These may be obtained from correctional institution records, court records, etc. In addition, income documentation for each family member in the household during the six-month period preceding the hire date.
Qualified food stamp recipients	The applicant is between 18 and 24 on hiring, and is a member of a family that received food stamps for the last six months; or is an able-bodied adult without dependents who received food stamps at least three of the last five months.	Documentation of age and food stamp benefit history is required. A copy of a birth certificate or drivers license is sufficient to determine age. SESA staff will verify food stamps.
Qualified supplemental security income recipients	The applicant must have received supplemental security income for any month during the 60 days before the date of hire.	Supplemental security income records are required for documentation. These records can be obtained through the Social Security Administration.
High risk youth living within an empowerment zone or enterprise community.	The applicant is between the 18 and 24 on hiring and lives within an empowerment zone or enterprise community (EZ/EC). <i>(See Publication 954.)</i>	Documentation of age and proof of residence ZIP code are required. A copy of a birth certificate or driver's license may document age. A current utility bill, telephone bill or driver's license is necessary to prove address of residence.
Vocational rehabilitation referral	The applicant was referred by a rehabilitation agency approved by the state or the Department of Veterans Affairs.	Documentation must show the applicant is, or has been, receiving services and has an Individualized Written Rehabilitation Plan through a state rehabilitation agency or a Veterans Administration vocational.
Qualified summer youth employee	The applicant performs services for the employer between May 1 and September 15, is 16 or 17 years old on hiring, has not been employed by the same employer before the 90 days (summer period) between May 1 and September 15 and lives in the EZ/EC.	Documentation of age and proof of residence ZIP code are required. A birth certificate or driver's license copy may document age. A current utility bill, telephone bill or driver's license is necessary to prove address of residence.

* Employers with questions about obtaining documentation should contact the work opportunity credit unit at their local SESA office.

State Certification

An employee is not considered a targeted group employee or a long-term family assistance recipient without SESA certification. To receive certification, submit Form 8850, PRE-SCREENING NOTICE AND CERTIFICATION REQUEST FOR THE WORK OPPORTUNITY AND WELFARE-TO-WORK CREDITS, to your SESA.

You must either:

1. Receive the certification by the day the individual begins work or
2. Do both of the following:
 - a. Complete Form 8850 by the day you offer the individual a job and
 - b. Submit the form to your SESA by the 21st day after the individual begins work.

See Exhibit 5.2 on page 5-5 and Exhibit 5.3 on pages 5-6 and 5-7 for instructions and a filled-in Form 8850.

EXHIBIT 5.2 – FORM 8850 INSTRUCTIONS

Form 8850 may be used for either work opportunity credit or welfare-to-work credit. Complete both sections if you are applying for both tax credits; otherwise, complete only the appropriate section.

Job Applicant Information (Work Opportunity Credit)

- Name: Enter name of the applicant/potential employee.
- Social Security Number (SSN): Enter the SSN of the applicant/potential employee.
- Address: Physical home address of applicant/potential employee.
- City/State/Zip Code: Self-explanatory.
- Date of Birth: Only required if applicant is under age 25.
- Telephone Number: Self-explanatory.
- Question #1: If job applicant received conditional certification from a participating agency, check the block; skip question #2. Job applicant signs and dates.
- Question #2: If applicant does not have conditional certification, check Question #2, if any statements apply to you. Job applicant signs and dates.
- **Applicant's Signature: This must be an original signature.**

Job Applicant Information Welfare-to-Work Tax Credit

- Complete all information on the top third of the page.
- Question #3: If job applicant received conditional certification from a participating agency, check this block for the welfare-to-work credit. Skip question # 4, and have the job applicant sign and date.
- Question #4: If job applicant does not have conditional certification, check the box for Question #4 if the applicant/ potential employee meets any of the requirements for a welfare-to-work credit, and have the job applicant sign and date.
- **Applicant's Signature: This must be an original signature.**

Employer Use Only

- Employer name and telephone number: This should reflect the business name and business telephone number.
- Employer Identification Number (EIN): Self explanatory.
- Street Address and City/State/Zip Code: Reflect business address information.
- Person to Contact/Telephone/Address/City/State: To be completed if a third party is the designated point of contact, or if Certification is to be mailed to a different address, such as a corporate headquarters.
- Interview date: Date the first interview was held.
- Job offer: Date the job offer was made.
- Hiring: The date of actual hire.
- Job starting: The date the employee physically starts to work. **Note: Form 8850 must be postmarked within 21 days of the start date.**
- **Signature: The signature of the employer or third party consultant must be original.**

EXHIBIT 5.3 – FILLED-IN FORM 8850, PAGE 1

Form 8850 Rev. November 1998 Department of the Treasury Internal Revenue Service	Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits ▶ See separate instructions.	OMB No. 1545-1500
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Job applicant: Fill in the lines below and check any boxes that apply. Complete only this side.

Our name MICHAEL JOHN DOE Social security number 987 00 4321

Street address where you live 456 SOUTH ST.

City or town, state, and ZIP code ANYTOWN, TX 77123

Telephone no. (713) 555-4678

If you are under age 25, enter your date of birth (month, day, year) 01/01/78

Work Opportunity Credit

1 ☐ Check here if you received a conditional certification from the state employment security agency (SESA) or a participating local agency for the work opportunity credit.

2 ☒ Check here if **any** of the following statements apply to you.

- I am a member of a family that has received assistance from Aid to Families with Dependent Children (AFDC) or its successor program, Temporary Assistance for Needy Families (TANF), for any 9 months during the last 18 months.
- I am a veteran and a member of a family that received food stamps for at least a 3-month period within the last 15 months.
- I was referred here by a rehabilitation agency approved by the state or the Department of Veterans Affairs.
- I am at least age 18 but **not** over age 24 and I am a member of a family that:
 - a Received food stamps for the last 6 months, OR
 - b Received food stamps for at least 3 of the last 5 months, BUT is no longer eligible to receive them.
- Within the past year, I was convicted of a felony or released from prison for a felony AND during the last 6 months I was a member of a low-income family.
- I received supplemental security income (SSI) benefits for any month ending within the last 60 days.

Welfare-to-Work Credit

3 ☐ Check here if you received a conditional certification from the SESA or a participating local agency for the welfare-to-work credit.

4 ☒ Check here if you are a member of a family that:

- Received AFDC or TANF payments for at least the last 18 months, OR
- Received AFDC or TANF payments for any 18 months beginning after August 5, 1997, OR
- Stopped being eligible for AFDC or TANF payments after August 5, 1997, because Federal or state law limited the maximum time those payments could be made.

All Applicants

Under penalties of perjury, I declare that I gave the above information to the employer on or before the day I was offered a job, and it is, to the best of my knowledge, true, correct, and complete.

Job applicant's signature Michael J. Doe Date 05/30/01

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 22851L Form 8850 (Rev. 11-98)

EXHIBIT 5.3 – FILLED-IN FORM 8850, PAGE 2

Form 8850 (Rev. 11-98)		Page 2
For Employer's Use Only		
Employer's name <u>ABC PLUMBING, INC.</u>	Telephone no. <u>(713) 555-1234</u> EIN ▶ <u>76-1234567</u>	
Street address <u>123 MAIN ST.</u>		
City or town, state, and ZIP code <u>ANYTOWN, TX 77123</u>		
Person to contact, if different from above _____ Telephone no. () -		
Street address _____		
City or town, state, and ZIP code _____		
If, based on the individual's age and home address, he or she is a member of group 4 or 6 (as described under Members of Targeted Groups in the separate instructions), enter that group number (4 or 6) ▶ _____		
DATE APPLICANT: Gave information <u>05/29/01</u> Was offered job <u>05/29/01</u> Was hired <u>05/29/01</u> Started job <u>05/30/01</u>		
Under penalties of perjury, I declare that I completed this form on or before the day a job was offered to the applicant and that the information I have furnished is, to the best of my knowledge, true, correct, and complete. Based on the information the job applicant furnished on page 1, I believe the individual is a member of a targeted group or a long-term family assistance recipient. I hereby request a certification that the individual is a member of a targeted group or a long-term family assistance recipient.		
Employer's signature <u>May Smith</u> Title <u>H.R. Manager</u> Date <u>05/30/01</u>		
Privacy Act and Paperwork Reduction Act Notice <i>Section references are to the Internal Revenue Code.</i> Section 51(d)(12) permits a prospective employer to request the applicant to complete this form and give it to the prospective employer. The information will be used by the employer to complete the employer's Federal tax return. Completion of this form is voluntary and may assist members of targeted groups and long-term family assistance recipients in securing employment. Routine uses of this form include giving it to the state employment security agency (SESA), which will contact appropriate sources to confirm that the applicant is a member of a targeted group or a long-term family assistance recipient. This form may also be given to the Internal Revenue Service for administration of the Internal Revenue laws, to the Department of Justice for civil and criminal litigation, to the Department of Labor for oversight of the certifications performed by the SESA, and to cities, states, and the District of Columbia for use in administering their tax laws. You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping 2 hr., 47 min. Learning about the law or the form 28 min. Preparing and sending this form to the SESA 36 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. DO NOT send this form to this address. Instead, see When and Where To File in the separate instructions.		

In addition, mail as soon as possible either:

1. U.S. DEPARTMENT OF LABOR ETA-9061, INDIVIDUAL CHARACTERISTIC FORM (with all supporting documentation), if the employee has not been conditionally certified already by your SESA or a participating agency (see filled in example Exhibit 5.4 on page 5-8) or
2. U.S. DEPARTMENT OF LABOR ETA-9062, CONDITIONAL CERTIFICATION FORM, if provided to the applicant by a participating agency (e.g., the Job Corps).

EXHIBIT 5.4 – ETA-9061, INDIVIDUAL CHARACTERISTICS FORM

Individual Characteristics Form Work Opportunity Tax Credit and Welfare-to-Work Tax Credit		U.S. Department of Labor Employment and Training Administration U.S. Employment Service									
1. CONTROL NO. (For Agency Use Only)		Individual Information (Instructions on the Back)		OMB Control No.: 1205-0371 Expires: 07/31/98							
3. EMPLOYER NAME/ADDRESS ABC PLUMBING, INC. 123 MAIN ST. ANYTOWN, TX 77123		4. EMPLOYER ID NUMBER 76-1234567		5. EMPLOYMENT START DATE 5-31-01							
		6. Have you worked for the above employer before? Yes _____ No ☒		Starting Wage: \$ 10.00 per hour POSITION: PLUMBER							
7. NAME OF INDIVIDUAL (Last, First, Middle) DOE, MICHAEL JOHN				8. SOCIAL SECURITY NUMBER: 987-00-4321							
The above named individual is determined to have the following characteristics for WOTC Target Group Certification:											
9. Age between 16 - 25? Yes ☒ No _____ If YES, indicate your "Date of Birth" below: Date of Birth 01-01-77		10. A veteran and a member of a family that received Food Stamps for a period of at least 3 months in the last 15 months. Yes _____ No ☒ If YES, also complete Box 17.		11. Is a member of a family that received AFDC (TANF) benefits for any 9 months in the last 18 months. Yes _____ No ☒ If YES, also complete Box 17.							
12. Is a member of a family that received Food Stamps for the last 6 months. Yes ☒ No _____ or for at least a 3-month period within the last 5 months, BUT is no longer receiving them? Yes _____ No _____ If YES to either, also complete Box 17.		13. In the past year has been convicted of a felony or released from prison after a felony conviction. Yes _____ No ☒ If YES, complete below: Date of Conviction _____ Date of Release _____ Total Income for the past 6 months for all family members living in the same household? Total Income: _____ (If No Income, Enter 0 above) No. of family members living in the same household for the past 6 months, including yourself: _____		14. Lives and plans to continue living in a Federal Empowerment Zone or Enterprise Community. Yes ☒ No _____ 16. Received Supplemental Security Income (SSI) benefits for any month ending within the last 60 days. Yes _____ No ☒							
15. Is receiving or has received Rehabilitation Services through a State Rehabilitation Services program or the Veterans' Administration. Yes _____ No ☒		17. If individual is not a primary recipient of benefits, please provide the following: Name of Primary Recipient _____ City/State of Benefits _____									
This section is to be completed by individuals starting work after December 31, 1997, under the Welfare-to-Work Tax Credit only.											
18. Is a member of a family that: <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">• Has received AFDC or TANF payments for at least the last 18 consecutive months;</td> <td style="width: 40%;">Yes ☒ No _____ or</td> </tr> <tr> <td>• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;</td> <td>Yes _____ No ☒ or</td> </tr> <tr> <td>• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.</td> <td>Yes _____ No ☒</td> </tr> </table>						• Has received AFDC or TANF payments for at least the last 18 consecutive months;	Yes ☒ No _____ or	• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;	Yes _____ No ☒ or	• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.	Yes _____ No ☒
• Has received AFDC or TANF payments for at least the last 18 consecutive months;	Yes ☒ No _____ or										
• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;	Yes _____ No ☒ or										
• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.	Yes _____ No ☒										
19. SOURCES USED TO DOCUMENT ELIGIBILITY: Driver's License											
Note: I certify that the information is true and correct to the best of my knowledge. I understand that the information above may be subject to verification. The signature of the party completing this form is required below.											
20. SIGNATURE: Michael J. Doe				21. DATE: 5/31/01							
Page 1 of 3				ETA-9061 (Rev. Jan. 1998)							

Qualified First-Year Wages

Qualified first year wages are qualified wages you pay or incur for work performed by a targeted group employee during the 1-year period beginning on the date the individual begins work for you. Qualified wages are generally wages subject to FUTA tax - up to \$6,000 each tax year* for each employee (\$3,000 each tax year* for a summer youth employee).

*Note: The one-year period can cover two tax years.

Example: Your certified employee began working for you on November March 26, 2001, tax year 2001. The 1-year period ends March 26, 2002, tax year 2002.

If the work performed by the employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$6,000 of that employee's wages subject to social security and Medicare taxes are qualified wages.

Nonqualified Wages

Some of the most common wages that **do not** qualify include wages you pay or incur to an employee who:

1. Has worked for you more than 1 year,
2. Is your relative or dependent,
3. Worked for you previously or
4. Does not work for you at least 120 hours.

See Form 5884, WORK OPPORTUNITY CREDIT, for a complete list of wages that do not qualify for the credit.

Amount of Credit

The table below shows the rate you apply to qualified first-year wages you pay or incur each tax year to a targeted group employee who works the number of hours shown and the maximum credit you can claim each tax year for each targeted group employee.

RATE AND MAXIMUM CREDIT EACH TAX YEAR FOR EACH TARGETED GROUP EMPLOYEE			
HOURS WORKED	RATE	MAXIMUM QUALIFIED FIRST-YEAR WAGES	MAXIMUM CREDIT
AT LEAST 400.....	40%	\$6,000*	\$2,400
FEWER THAN 400 BUT AT LEAST 120.....	25%	6,000*	1,500
*3,000 FOR A SUMMER YOUTH EMPLOYEE			

Claiming the Credit

Use Form 5884 to claim this credit (Exhibit 5.5) and file it with your tax return. For example, sole proprietors claiming the credit on their 2000 tax returns entered the credit on Form 1040, Line 49, OTHER CREDITS.

EXHIBIT 5.5 – FORM 5884, WORK OPPORTUNITY CREDIT

Form 5884 Department of the Treasury Internal Revenue Service	Work Opportunity Credit ▶ Attach to your return.	OMB No. 1545-0219 2000 Attachment Sequence No. 77
Name(s) shown on return _____		Identifying number _____

Part I Current Year Credit (Members of a controlled group, see instructions.)

1 Enter the total qualified first-year wages paid or incurred during the tax year, and multiply by the percentage shown, for services of employees who are certified as members of a targeted group and:

a Worked at least 120 hours but fewer than 400 hours . . . \$ _____ × 25% (.25)	1a	
b Worked at least 400 hours . . . \$ _____ × 40% (.40)	1b	
2 Current year credit. Add lines 1a and 1b. You must subtract this amount from your deduction for salaries and wages	2	

3 Work opportunity credits from:

If you are a—	Then enter total of current year work opportunity credit(s) from—		
a Shareholder . . .	Schedule K-1 (Form 1120S), lines 12d, 12e, or 13 . . .	}	3
b Partner . . .	Schedule K-1 (Form 1065), lines 12c, 12d, or 13 . . .		
c Beneficiary . . .	Schedule K-1 (Form 1041), line 14 . . .		
d Patron . . .	Written statement from cooperative . . .		

4 Total current year work opportunity credit. Add lines 2 and 3. (S corporations, partnerships, estates, trusts, cooperatives, regulated investment companies, and real estate investment trusts, see instructions.)

Part II Tax Liability Limit (See Who Must File Form 3800 to find out if you complete Part II or file Form 3800.)

5 Regular tax before credits:

- Individuals. Enter the amount from Form 1040, line 40
- Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return
- Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return

6 Alternative minimum tax:

- Individuals. Enter the amount from Form 6251, line 28
- Corporations. Enter the amount from Form 4626, line 15
- Estates and trusts. Enter the amount from Form 1041, Schedule I, line 39

7 Add lines 5 and 6

8a Foreign tax credit **8a**

b Credit for child and dependent care expenses (Form 2441, line 9) **8b**

c Credit for the elderly or the disabled (Schedule R (Form 1040), line 20) **8c**

d Education credits (Form 8863, line 18) **8d**

e Child tax credit (Form 1040, line 47) **8e**

f Mortgage interest credit (Form 8396, line 11) **8f**

g Adoption credit (Form 8839, line 14) **8g**

h District of Columbia first-time homebuyer credit (Form 8859, line 11) **8h**

i Possessions tax credit (Form 5735, line 17 or 27) **8i**

j Credit for fuel from a nonconventional source **8j**

k Qualified electric vehicle credit (Form 8834, line 19) **8k**

l Add lines 8a through 8k **8l**

9 Net income tax. Subtract line 8l from line 7 **9**

10 Tentative minimum tax (see instructions) **10**

11 Net regular tax. Subtract line 8l from line 5. If zero or less, enter -0- **11**

12 Enter 25% (.25) of the excess, if any, of line 11 over \$25,000 (see instructions) **12**

13 Enter the greater of line 10 or line 12 **13**

14 Subtract line 13 from line 9. If zero or less, enter -0- **14**

15 Work opportunity credit allowed for the current year. Enter the smaller of line 4 or line 14 here and on Form 1040, line 49; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 4a; Form 1041, Schedule G, line 2c; or the applicable line of your return **15**

For Paperwork Reduction Act Notice, see page 3. Cat. No. 13570D Form 5884 (2000)

Complete Form 3800, GENERAL BUSINESS CREDIT (Exhibit 5.6) instead of completing Part II of Form 5884 to figure the tax liability limit for the credit if for this year you are also claiming the welfare-to-work credit.

EXHIBIT 5.6 – FORM 3800, GENERAL BUSINESS CREDIT

Form 3800 Department of the Treasury Internal Revenue Service Name(s) shown on return	General Business Credit ▶ Attach to your tax return. ▶ See separate instructions.	OMB No. 1545-0895 2000 Attachment Sequence No. 22 Identifying number
Part I Tentative Credit		
1a Current year investment credit (Form 3468, Part I) b Current year work opportunity credit (Form 5884, Part I) c Current year welfare-to-work credit (Form 8861, Part I) d Current year credit for alcohol used as fuel (Form 6478) e Current year credit for increasing research activities (Form 6765, Part I) f Current year low-income housing credit (Form 8586, Part I) g Current year enhanced oil recovery credit (Form 8830, Part I) h Current year disabled access credit (Form 8826, Part I) i Current year renewable electricity production credit (Form 8835, Part I) j Current year Indian employment credit (Form 8845, Part I) k Current year credit for employer social security and Medicare taxes paid on certain employee tips (Form 8846, Part I) l Current year orphan drug credit (Form 8820, Part I) m Current year credit for contributions to selected community development corporations (Form 8847, Part I) n Current year trans-Alaska pipeline liability fund credit (see instructions) o Current year general credits from an electing large partnership (Schedule K-1 (Form 1065-B)) 2 Current year general business credit. Add lines 1a through 1o 3 Passive activity credits included on line 2 (see instructions) 4 Subtract line 3 from line 2 5 Passive activity credits allowed for 2000 (see instructions) 6 Carryforward of general business or ESOP credit to 2000 (see instructions for the schedule to attach) 7 Carryback of general business credit from 2001 (see instructions) 8 Tentative general business credit. Add lines 4 through 7	1a 1b 1c 1d 1e 1f 1g 1h 1i 1j 1k 1l 1m 1n 1o 2 3 4 5 6 7 8	
Part II General Business Credit Limitation Based on Amount of Tax		
9 Regular tax before credits (see instructions) 10 Alternative minimum tax (see instructions) 11 Add lines 9 and 10 12a Foreign tax credit b Credit for child and dependent care expenses (Form 2441, line 9) c Credit for the elderly or the disabled (Schedule R (Form 1040), line 20) d Education credits (Form 8863, line 18) e Child tax credit (Form 1040, line 47) f Mortgage interest credit (Form 8396, line 11) g Adoption credit (Form 8839, line 14) h District of Columbia first-time homebuyer credit (Form 8859, line 11) i Possessions tax credit (Form 5735, line 17 or 27) j Credit for fuel from a nonconventional source k Qualified electric vehicle credit (Form 8834, line 19) l Add lines 12a through 12k 13 Net income tax. Subtract line 12l from line 11 14 Tentative minimum tax (see instructions) 15 Net regular tax. Subtract line 12l from line 9. If zero or less, enter -0- 16 Enter 25% (.25) of the excess, if any, of line 15 over \$25,000 (see instructions) 17 Enter the greater of line 14 or line 16 18a Subtract line 17 from line 13. If zero or less, enter -0- 18b Enter the smaller of line 8 or line 18a. Individuals, estates, and trusts: See instructions if claiming the credit for increasing research activities. C corporations: See the instructions for Schedule A if any regular investment credit carryforward is claimed and the line 18b instructions if there has been an ownership change, acquisition, or reorganization 18c Suspended research credit allowed for the current year (see instructions) 19 General business credit allowed for the current year. Subtract line 18c from line 18b. Enter here and on Form 1040, line 49; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 4a; Form 1041, Schedule G, line 2c; or the applicable line of your return	9 10 11 12a 12b 12c 12d 12e 12f 12g 12h 12i 12j 12k 12l 13 14 15 16 17 18a 18b 18c 19	
For Paperwork Reduction Act Notice, see back of form. Cat. No. 12392F Form 3800 (2000)		

Effect on Salary and Wage Deduction

In general, you must reduce the deduction on your income tax return for salaries and wages by the amount of your work opportunity credit. For a sole proprietor, this is on Schedule C of Form 1040.

Effect of Welfare-to-Work Credit

You cannot claim both the work opportunity credit and the welfare-to-work credit for the same employee during the same tax year. In some cases, it may be more advantageous to claim the work opportunity credit the first year and the welfare-to-work credit the second year.

More Information

For more information about the work opportunity credit, see Form 5884 or visit the Department of Labor Web site at **www.doleta.gov** or call **1-800-695-6879** for forms and information. You can also use the Department of Labor's fax on demand service by calling **(703) 365-0768** (not a toll-free number) from your fax machine and following the prompts.

Checklist

Before claiming the credit, use this checklist

- ✓ Form 8850 completed and signed by:
 - ✓ Employer and
 - ✓ Employee
- ✓ ETA Form 9061, INDIVIDUAL CHARACTERISTICS FORM **and**
- ✓ Documents attached to demonstrate eligibility **or**
- ✓ ETA Form 9062, CONDITIONAL CERTIFICATION FORM, from an authorized participating agency.



Information must be entered on Form 8850 on or before the day a job offer is made.

Form 8850 must be postmarked within 21 days of the employee's start date and have original signatures.

ETA-9061 should be mailed as soon as possible and does not need original signatures.

Note: At the time this workbook was printed, the credit was set to expire for individuals who begin working for you after Dec. 31, 2001.

Welfare-to-Work Credit

The welfare-to-work credit provides businesses with an incentive to hire long-term family assistance recipients. Your business does not have to be an empowerment zone, enterprise community or renewal community to qualify for this credit. You can claim the credit if you pay or incur “qualified wages” during the first 2 years of employment to a “long-term family assistance recipient” who began work for you after Dec. 1997 and before Jan. 1, 2002.

Long-term Family Assistance Recipient

A long-term family assistance recipient is an individual who has been certified by your SESA as a member of a family that:

1. Has received assistance payments from Temporary Assistance for Needy Families (TANF) for at least 18 consecutive months ending on the hiring date,
2. Received assistance payments from TANF for any 18 months (whether or not consecutive) beginning after August 5, 1997, and is hired not more than 2 years after the end of the earliest 18-month period or
3. After August 5, 1997, stopped being eligible for assistance payments because federal or state law limits the maximum period that assistance is payable, and is hired not more than 2 years after that eligibility for assistance ends.

State Certification Required

An individual is not considered a long-term family assistance recipient without SESA certification. To receive certification, submit Form 8850 to your SESA.

You must either:

1. Receive the certification by the day the individual begins work or
2. Do both of the following:
 - a. Complete Form 8850 by the day you offer the individual a job and
 - b. Submit the form to your SESA by the 21st day after the individual begins work.

See Exhibit 5.2 on page 5-5 and Exhibit 5.3 on pages 5-6 and 5-7 for instructions and a filled-in Form 8850.

In addition, mail as soon as possible either:

1. U.S. DEPARTMENT OF LABOR ETA-9061, INDIVIDUAL CHARACTERISTIC FORM (with all supporting documentation), if the employee has not been conditionally certified already by your SESA or a participating agency (see filled in example Exhibit 5.4 on page 5-8) or

2. U.S. DEPARTMENT OF LABOR ETA-9062, CONDITIONAL CERTIFICATION FORM, if provided to the applicant by a participating agency (e.g., the Job Corps).

Qualified Wages

Qualified wages are generally wages subject to FUTA taxes without regard to the FUTA dollar limit, but not more than \$10,000 each tax year for each employee. If the work performed by the employee during more than half of any pay period qualifies under FUTA as agricultural labor, the first \$10,000 of that employee's wages subject to social security and Medicare taxes are qualified wages. For this credit, qualified wages also generally include the following amounts paid or incurred by the employer that are normally excludable from the employee's gross income:

1. Amounts received for medical care under accident and health plans.
2. Employer-provided coverage under accident and health plans.
3. Certain amounts excludable under an educational assistance program.
4. Amounts excludable under a dependent care assistance program.

Nonqualified Wages

Some of the most common wages that **do not** qualify include wages you pay or incur to an employee who:

1. Has worked for you for more than 2 years,
2. Is your relative or dependent,
3. Worked for you previously or
4. Does not either:
 - a. Work for you at least 180 days or
 - b. Complete at least 400 hours of service.

For a complete list of nonqualified wages, see the general instructions for Form 8861.

Amount of Credit

The following table shows the rate you apply to the qualified wages you pay or incur during each year of employment and the maximum credit you can claim each tax year for each qualified employee.

**RATE AND MAXIMUM CREDIT EACH TAX YEAR FOR EACH
LONG-TERM FAMILY ASSISTANCE RECIPIENT**

	<u>RATE</u>	<u>MAXIMUM QUALIFIED WAGES</u>	<u>MAXIMUM CREDIT</u>
QUALIFIED 1ST-YEAR WAGES	35%	\$10,000	\$3,500
QUALIFIED 2ND-YEAR WAGES	50%	\$10,000	\$5,000

Qualified First-Year Wages

Qualified first-year wages are qualified wages you pay or incur for work performed by a long-term family assistance recipient during the 1-year period beginning on the date the individual begins work for you.

Qualified Second-Year Wages

Qualified second-year wages are qualified wages you pay or incur for work performed by a long-term family assistance recipient during the 1-year period beginning on the day after the last day of the first-year wage period.

Claiming the Credit

Use Form 8661 to claim this credit (Exhibit 5.7) and file it with your tax return. For example, sole proprietors claiming the credit on their 2000 tax returns entered the credit on Form 1040, Line 49, OTHER CREDITS.

EXHIBIT 5.7 – FORM 8661, WELFARE-TO-WORK CREDIT

Form 8861 Department of the Treasury Internal Revenue Service	Welfare-to-Work Credit ▶ Attach to your return.	OMB No. 1545-1569 2000 Attachment Sequence No. 107
Name(s) shown on return		Identifying number
Part I Current Year Credit		
1 Enter on the applicable line below the qualified first- or second-year wages paid or incurred during the tax year and multiply by the percentage shown for services of employees who are certified as long-term family assistance recipients and who began work for you after 1997. Members of a controlled group, see instructions.		
a Qualified first-year wages \$ _____ × 35% (.35)	1a	
b Qualified second-year wages \$ _____ × 50% (.50)	1b	
2 Current year credit. Add lines 1a and 1b. You must subtract this amount from your deduction for salaries and wages	2	
3 Welfare-to-work credits from: If you are a— a Shareholder Schedule K-1 (Form 1120S), lines 12d, 12e, or 13. b Partner Schedule K-1 (Form 1065), lines 12c, 12d, or 13. c Beneficiary Schedule K-1 (Form 1041), line 14 d Patron Written statement from cooperative	3	
4 Total current year welfare-to-work credit. Add lines 2 and 3. (S corporations, partnerships, estates, trusts, cooperatives, regulated investment companies, and real estate investment trusts, see instructions.)	4	
Part II Tax Liability Limit (See Who Must File Form 3800 to find out if you complete Part II or file Form 3800.)		
5 Regular tax before credits: • Individuals. Enter the amount from Form 1040, line 40 • Corporations. Enter the amount from Form 1120, Schedule J, line 3; Form 1120-A, Part I, line 1; or the applicable line of your return • Estates and trusts. Enter the sum of the amounts from Form 1041, Schedule G, lines 1a and 1b, or the amount from the applicable line of your return		
5		
6 Alternative minimum tax: • Individuals. Enter the amount from Form 6251, line 28 • Corporations. Enter the amount from Form 4626, line 15 • Estates and trusts. Enter the amount from Form 1041, Schedule I, line 39		
6		
7 Add lines 5 and 6		
7		
8a Foreign tax credit		
8a		
b Credit for child and dependent care expenses (Form 2441, line 9)		
8b		
c Credit for the elderly or the disabled (Schedule R (Form 1040), line 20)		
8c		
d Education credits (Form 8863, line 18)		
8d		
e Child tax credit (Form 1040, line 47)		
8e		
f Mortgage interest credit (Form 8396, line 11)		
8f		
g Adoption credit (Form 8839, line 14)		
8g		
h District of Columbia first-time homebuyer credit (Form 8859, line 11)		
8h		
i Possessions tax credit (Form 5735, line 17 or 27)		
8i		
j Credit for fuel from a nonconventional source		
8j		
k Qualified electric vehicle credit (Form 8834, line 19)		
8k		
l Add lines 8a through 8k		
8l		
9 Net income tax. Subtract line 8l from line 7		
9		
10 Tentative minimum tax (see instructions): • Individuals. Enter the amount from Form 6251, line 26 • Corporations. Enter the amount from Form 4626, line 13 • Estates and trusts. Enter the amount from Form 1041, Schedule I, line 37		
10		
11 Net regular tax. Subtract line 8l from line 5. If zero or less, enter -0-		
11		
12 Enter 25% (.25) of the excess, if any, of line 11 over \$25,000 (see instructions)		
12		
13 Enter the greater of line 10 or line 12		
13		
14 Subtract line 13 from line 9. If zero or less, enter -0-		
14		
15 Welfare-to-work credit allowed for the current year. Enter the smaller of line 4 or line 14 here and on Form 1040, line 49; Form 1120, Schedule J, line 6d; Form 1120-A, Part I, line 4a; Form 1041, Schedule G, line 2c; or the applicable line of your return		
15		
For Paperwork Reduction Act Notice, see page 3. Cat. No. 24858E Form 8861 (2000)		

Complete Form 3800, GENERAL BUSINESS CREDIT, instead of completing Part II of Form 8661 to figure the tax liability limit for the credit if you are also claiming the work opportunity credit. (See Exhibit 5.6 on page 5-11.)

Effect on Salary and Wage Deduction

In general, you must reduce the deduction on your income tax return for salaries and wages by the amount of your welfare-to-work credit.

Effect of Work Opportunity Credit

You cannot claim both the welfare-to-work and the work opportunity credit for the same employee during the same tax year. In some cases, it may be more advantageous to claim the work opportunity credit the first year and the welfare-to-work credit the second year.

More Information

For more information about the welfare-to-work credit, see Form 8861 or visit the Department of Labor Web site at **www.doleta.gov** or call 1-800-695-6879 for forms and information. You can also use the Department of Labor's fax on demand service by calling (703) 365-0768 (not a toll-free number) from your fax machine and following the prompts.

Checklist**Before claiming the credit, use this checklist**

- ✓ Form 8850 completed and signed by:
 - ✓ Employer and
 - ✓ Employee
- ✓ ETA Form 9061, INDIVIDUAL CHARACTERISTICS FORM and
- ✓ Documents attached to demonstrate eligibility or
- ✓ ETA Form 9062, CONDITIONAL CERTIFICATION FORM, from an authorized participating agency.



Information must be entered on Form 8850 on or before the day a job offer is made.

Form 8850 must be postmarked within 21 days of the employee's start date and have original signatures.

ETA-9061 should be mailed as soon as possible and does not need original signatures.

Note: At the time this workbook was printed, the credit was set to expire for individuals who begin working for you after Dec. 31, 2001.

Exercise

Tanya Michelle Ellis is 21, single and a member of a family who received Food Stamps for the past six months. She interviewed for a job with Work Is Us Corporation on June 25, 2001. She was offered the job by Bill Brown, Human Resources Manager, on June 26 and hired the same day. She began working for the company as a product handler on July 2 for \$10 an hour. Tanya received TANF benefits for 18 months prior to beginning her job. She gave the personnel office the following information:

SSN: 404-00-7755

Birthdate: Sept. 12, 1979

Address: 233 E. Market St., Waterloo, TX 78799

Phone Number: (512) 555-1212.

Work Is Us Corporation's address is 456 W. Highway 12, Waterloo, TX 78799 and their phone number is (512) 555-6600. Their EIN is 74-8906543.

(A) Which credit or credits are the wages qualified for?

(1) Work opportunity credit Yes____ No____

(2) Welfare-to-work credit Yes____ No____

(B) Complete the forms required to qualify for one or both credits.

(Exhibits 5.8-and 5-9.)

(C) When should the forms be postmarked or mailed?

(1) Form 8850

(2) ETA-9061

(D) Are original signatures required on both forms?

(1) Form 8850 Yes____ No____

(2) ETA-9061 Yes____ No____

(Answers found on pages A-9 through A-12.)

EXHIBIT 5.8 – FORM 8850, PAGE 1

Form 8850 (Rev. November 1998) Department of the Treasury Internal Revenue Service	Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits ▶ See separate instructions.	OMB No. 1545-1500
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Job applicant: Fill in the lines below and check any boxes that apply. Complete only this side.

Your name _____ Social security number ▶ _____

Street address where you live _____

City or town, state, and ZIP code _____

Telephone no. (____) _____ - _____

If you are under age 25, enter your date of birth (month, day, year) ____/____/____

Work Opportunity Credit

1 ☐ Check here if you received a conditional certification from the state employment security agency (SESA) or a participating local agency for the work opportunity credit.

2 ☐ Check here if **any** of the following statements apply to you.

- I am a member of a family that has received assistance from Aid to Families with Dependent Children (AFDC) or its successor program, Temporary Assistance for Needy Families (TANF), for any 9 months during the last 18 months.
- I am a veteran and a member of a family that received food stamps for at least a 3-month period within the last 15 months.
- I was referred here by a rehabilitation agency approved by the state or the Department of Veterans Affairs.
- I am at least age 18 but **not** over age 24 and I am a member of a family that:
 - a Received food stamps for the last 6 months, OR
 - b Received food stamps for at least 3 of the last 5 months, BUT is no longer eligible to receive them.
- Within the past year, I was convicted of a felony or released from prison for a felony AND during the last 6 months I was a member of a low-income family.
- I received supplemental security income (SSI) benefits for any month ending within the last 60 days.

Welfare-to-Work Credit

3 ☐ Check here if you received a conditional certification from the SESA or a participating local agency for the welfare-to-work credit.

4 ☐ Check here if you are a member of a family that:

- Received AFDC or TANF payments for at least the last 18 months, OR
- Received AFDC or TANF payments for any 18 months beginning after August 5, 1997, OR
- Stopped being eligible for AFDC or TANF payments after August 5, 1997, because Federal or state law limited the maximum time those payments could be made.

All Applicants

Under penalties of perjury, I declare that I gave the above information to the employer on or before the day I was offered a job, and it is, to the best of my knowledge, true, correct, and complete.

Job applicant's signature ▶ _____ **Date** ____/____/____

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 22851L Form **8850** (Rev. 11-98)

EXHIBIT 5.8 – FORM 8850, PAGE 2

Form 8850 (Rev. 11-98)		Page 2
For Employer's Use Only		
Employer's name _____ Telephone no. () - _____ EIN ▶ _____		
Street address _____		
City or town, state, and ZIP code _____		
Person to contact, if different from above _____ Telephone no. () - _____		
Street address _____		
City or town, state, and ZIP code _____		
If, based on the individual's age and home address, he or she is a member of group 4 or 6 (as described under Members of Targeted Groups in the separate instructions), enter that group number (4 or 6) ▶ _____		
DATE APPLICANT: Gave	Was	Was
information / /	offered	hired / /
	job / /	Started
		job / /
Under penalties of perjury, I declare that I completed this form on or before the day a job was offered to the applicant and that the information I have furnished is, to the best of my knowledge, true, correct, and complete. Based on the information the job applicant furnished on page 1, I believe the individual is a member of a targeted group or a long-term family assistance recipient. I hereby request a certification that the individual is a member of a targeted group or a long-term family assistance recipient.		
Employer's signature ▶ _____	Title _____	Date / / _____
Privacy Act and Paperwork Reduction Act Notice <i>Section references are to the Internal Revenue Code.</i> Section 51(d)(12) permits a prospective employer to request the applicant to complete this form and give it to the prospective employer. The information will be used by the employer to complete the employer's Federal tax return. Completion of this form is voluntary and may assist members of targeted groups and long-term family assistance recipients in securing employment. Routine uses of this form include giving it to the state employment security agency (SESA), which will contact appropriate sources to confirm that the applicant is a member of a targeted group or a long-term family assistance recipient. This form may also be given to the Internal Revenue Service for administration of the Internal Revenue laws, to the Department of Justice for civil and criminal litigation, to the Department of Labor for oversight of the certifications performed by the SESA, and to cities, states, and the District of Columbia for use in administering their tax laws. You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103. The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping 2 hr., 47 min. Learning about the law or the form 28 min. Preparing and sending this form to the SESA 36 min. If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. DO NOT send this form to this address. Instead, see When and Where To File in the separate instructions.		

EXHIBIT 5.9 – ETA-9061

Individual Characteristics Form Work Opportunity Tax Credit and Welfare-to-Work Tax Credit		U.S. Department of Labor Employment and Training Administration U.S. Employment Service								
1. CONTROL NO. (For Agency Use Only)	Individual Information (Instructions on the Back)		OMB Control No.: 1205-0371 Expires: 07/31/98 2. DATE RECEIVED (For Agency Use Only)							
3. EMPLOYER NAME/ADDRESS	4. EMPLOYER ID NUMBER 6. Have you worked for the above employer before? Yes _____ No _____	5. EMPLOYMENT START DATE Starting Wage: \$ _____ per hour POSITION:								
7. NAME OF INDIVIDUAL (Last, First, Middle)		8. SOCIAL SECURITY NUMBER:								
The above named individual is determined to have the following characteristics for WOTC Target Group Certification:										
9. Age between 16 - 25? Yes _____ No _____ If YES, indicate your "Date of Birth" below: Date of Birth _____	10. A veteran and a member of a family that received Food Stamps for a period of at least 3 months in the last 15 months. Yes _____ No _____ If YES, also complete Box 17.		11. Is a member of a family that received AFDC (TANF) benefits for any 9 months in the last 18 months. Yes _____ No _____ If YES, also complete Box 17.							
12. Is a member of a family that received Food Stamps for the last 6 months. Yes _____ No _____ or _____ for at least a 3-month period within the last 5 months, BUT is no longer receiving them? Yes _____ No _____ If YES to either, also complete Box 17.	13. In the past year has been convicted of a felony or released from prison after a felony conviction. Yes _____ No _____ If YES, complete below: Date of Conviction _____ Date of Release _____ Total Income for the past 6 months for all family members living in the same household? Total Income: _____ (If No Income, Enter 0 above) No. of family members living in the same household for the past 6 months, including yourself: _____		14. Lives and plans to continue living in a Federal Empowerment Zone or Enterprise Community. Yes _____ No _____ 16. Received Supplemental Security Income (SSI) benefits for any month ending within the last 60 days. Yes _____ No _____							
15. Is receiving or has received Rehabilitation Services through a State Rehabilitation Services program or the Veterans' Administration. Yes _____ No _____		17. If individual is not a primary recipient of benefits, please provide the following: Name of Primary Recipient _____ City/State of Benefits _____								
This section is to be completed by individuals starting work after December 31, 1997, under the Welfare-to-Work Tax Credit only.										
18. Is a member of a family that:										
<table style="width: 100%;"> <tr> <td style="width: 60%;">• Has received AFDC or TANF payments for at least the last 18 consecutive months;</td> <td style="width: 40%;">Yes _____ No _____ or _____</td> </tr> <tr> <td>• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;</td> <td>Yes _____ No _____ or _____</td> </tr> <tr> <td>• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.</td> <td>Yes _____ No _____</td> </tr> </table>					• Has received AFDC or TANF payments for at least the last 18 consecutive months;	Yes _____ No _____ or _____	• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;	Yes _____ No _____ or _____	• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.	Yes _____ No _____
• Has received AFDC or TANF payments for at least the last 18 consecutive months;	Yes _____ No _____ or _____									
• Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997;	Yes _____ No _____ or _____									
• Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable.	Yes _____ No _____									
19. SOURCES USED TO DOCUMENT ELIGIBILITY:										
Note: I certify that the information is true and correct to the best of my knowledge. I understand that the information above may be subject to verification. The signature of the party completing this form is required below.										
20. SIGNATURE:			21. DATE:							
Page 1 of 3			ETA-9061 (Rev. Jan. 1998)							

Notes

Lesson 6

IRS *e-file* for Business

Introduction



Click. Zip. Fast Round Trip. If you were one of the more than 40 million taxpayers who used IRS *e-file* in 2001 — through an Authorized IRS e-file Provider, by personal computer or by telephone — then you are aware of the countless benefits of electronically filing your personal income tax return. Now you can have IRS *e-file* as part of your business strategy by using *e-file* programs developed especially for businesses such as yours. This section of the workshop gives an overview of the programs available and a preview of those being developed. You can also log on to **www.irs.gov** and click on “Electronic Services”/“IRS *e-file* for Businesses” for updates and timelines.

Objectives

At the end of this lesson, you will be able to:

1. Name the IRS business *e-file* programs.
2. Determine which programs can be used in your business.

References

Publication 966, EFTPS – WHAT EVERY SMALL, MEDIUM AND LARGE BUSINESS NEEDS TO KNOW ABOUT PAYING FEDERAL BUSINESS TAXES

Publication 3603, THREE WAYS TO ELECTRONICALLY FILE FORM 941, EMPLOYER’S QUARTERLY TAX RETURN

Form 9779b, BUSINESS ENROLLMENT FORM

The Electronic Federal Tax Payment System (EFTPS)

With EFTPS, you can make your federal tax payments electronically instead of using paper deposit coupons. There are no more last minute trips to the bank, lost checks, inaccurate forms or postage costs. EFTPS is a free payment system sponsored by the U.S. Department of the Treasury and

- Currently serves more than 3 million business taxpayers.
- Enrolls 6,500 new businesses each week.
- Is available to **all** business taxpayers.
- Can be as easy to use as making a three-minute (or less) phone call.



Note: Only businesses that make in excess of \$200,000 in total deposits yearly are required to enroll in EFTPS. It is used by and recommended for smaller depositors because of its convenience and simplicity.

EFTPS offers you the convenience of making your federal tax payment directly by phone or personal computer (PC) or through your financial institution. You can initiate your tax payment 24 hours a day, 7 days a week. EFTPS even allows you to schedule your tax payment instructions up to 120 days in advance of the date you designate. No special equipment is required to use EFTPS; and, if you use a PC, Windows®-based software is available free-of-charge.

Whether you use a phone, PC or a financial institution, you are in charge of initiating your tax payments through EFTPS. Payments are made only with your instructions. No one else, including the IRS, has access to your account. And you receive an Electronic Funds Transfer (EFT) Acknowledgment Number to keep as a record of your payment.

Pay Your Taxes Electronically

You can use EFTPS to pay these taxes:

FORM 720	QUARTERLY FEDERAL EXCISE RETURN
FORM 940	EMPLOYER'S ANNUAL FEDERAL UNEMPLOYMENT TAX (FUTA) RETURN
FORM 941	EMPLOYER'S QUARTERLY FEDERAL TAX RETURN
FORM 943	EMPLOYER'S ANNUAL TAX RETURN FOR AGRICULTURE WORKERS
FORM 945	ANNUAL RETURN OF WITHHELD FEDERAL INCOME TAX
FORM 990-C	FARMER'S COOPERATIVE ASSOCIATION INCOME TAX RETURN
FORM 990-PF	RETURN OF PRIVATE FOUNDATION
FORM 990-T	EXEMPT ORGANIZATION BUSINESS INCOME TAX RETURN SECTION 4947 (A)(1) CHARITABLE TRUST TREATED AS A PRIVATE FOUNDATION
FORM 1041	FIDUCIARY INCOME TAX RETURN
FORM 1042	ANNUAL WITHHOLDING TAX RETURN FOR U.S. SOURCES OF INCOME OF FOREIGN PERSONS
FORM 1120	U.S. CORPORATION INCOME TAX RETURN
FORM CT-1	EMPLOYER'S ANNUAL RAILROAD RETIREMENT TAX RETURN

Payment Options

On Form 9779b, BUSINESS ENROLLMENT FORM, (pages 6-6 and 6-7) you will be asked to select from the following primary payment methods:

- **EFTPS–Direct**
- **EFTPS–Through a Financial Institution**

You also have the option to use a **Same Day Payment** method, although many financial institutions charge significant fees for using this method.

EFTPS–Direct (Automated Clearinghouse (ACH) Debit)



If you select this method of payment, you will receive a Personal Identification Number (PIN). Your PIN must be used in combination with your Taxpayer Identification Number (TIN) to gain access to EFTPS. EFTPS will move the funds from your account to the Treasury's account on the date you designate. **Funds will not move from your account until the date you indicate. You instruct EFTPS to originate your payments by either calling a toll-free number and using the automated telephone system or using your PC.**

Step 1. At least one calendar day before your tax due date, and before 8:00 p.m. ET, you access EFTPS by phone or PC. EFTPS will then prompt you for the necessary information to complete your tax payment report.

Step 2. The system processes the information reported. When the information is accepted, you will receive an EFT Acknowledgment Number. Keep this number for your records in case of questions at a later date.

Step 3. Once your tax payment report is accepted, EFTPS will originate an ACH Debit transaction against your designated account on the date you indicated when making your payment.

Step 4. The funds will be transferred to the Treasury's account and the tax data will be reported to IRS to update your tax records.

EFTPS–Through a Financial Institution (ACH Credit)

In this method, you will instruct your financial institution to electronically move funds from your account to the Treasury's Account. However, not all financial institutions offer this service. Therefore, before selecting this option, you should first check with your bank to see if they offer this service, how much it costs, and if you are eligible to use it.

Step 1. At least one day before the tax due date, you initiate your payment through your financial institution. The tax payment report must be made prior to your financial institution's ACH processing deadline.

Step 2. Your financial institution will originate an ACH Credit transaction to EFTPS, transferring the funds to the Treasury's Account and the tax data to IRS to update your tax records.

Same Day Payment

While EFTPS-Direct and EFTPS-Through a Financial Institution are the primary payment methods for EFTPS, you can also use the Same Day Payment method. Check with your financial institution for fees involved. Typically, the cost of Same Day Payments is higher than the other payment methods.

Payroll Company

If you choose to allow your payroll company to make tax payments on your behalf, you should check with them for specific fees, deadlines and instructions pertaining to enrollment in EFTPS.



If your payroll company is not making all of your tax payments through EFTPS, you will need to enroll in EFTPS to initiate those payments not handled by them. It is also a good idea to enroll in EFTPS separately so that you have flexibility if you ever need to change payroll companies.

Scheduling Feature

As a bonus, if you are out of town when your tax payment is due, or you want to plan ahead, EFTPS offers a Payment Schedule feature. You may schedule your payment instructions for up to 120 days in advance of the tax due date and EFTPS will automatically make your payments for you on the due date you indicate.

Customer Service and Enrollment

Once you enroll in EFTPS, you will have a dedicated Customer Service Center to answer any questions about your payments. Customer Service Centers are open 24 hours a day, 7 days a week. Call **1-800-555-4477** or **1-800-945-8400** with questions.

Enrolling in EFTPS

Complete Form 9779b and mail it to the EFTPS Enrollment Center. Once you are enrolled and receive confirmation of your enrollment, you can begin to make tax payments electronically. To receive an enrollment form, call EFTPS Customer Service.

After Enrollment

Once you have completed and mailed your enrollment form, EFTPS processes your enrollment and sends you a confirmation packet, including a step-by-step Payment Instruction Booklet. Your PIN will be sent under separate cover. Once you receive your PIN, you can begin making payments.

Note: If your Enrollment Form is incomplete and cannot be processed, you will receive notification from EFTPS regarding any missing information.

Coming . . . Fall 2001
EFTPS-OnLine



EFTPS-OnLine, at www.eftps.gov, will offer:

- OnLine enrollment.
- OnLine payments.
- OnLine help and information.
- Payment and account history.
- Customer service.

EXHIBIT - FORM 9779B, PAGE 2



(continued)

8. Payment Method. Choose the payment method(s) by placing an "X" in the box(es). The options available are: EFTPS-Direct and EFTPS-Through Your Financial Institution.

9. Input Methods used for EFTPS-Direct. Mark the box(es) next to the input option(s) you expect to use. Please check all methods you will be using.

Payment Information

8. Payment Method

☐ **EFTPS-Direct:** check here if you will instruct EFTPS to transfer payment from your account. (see item 9)

☐ **EFTPS-Through Your Financial Institution:** check here if you will instruct your financial institution to forward the payment to EFTPS. You must check with your financial institution to determine if they are capable of providing this service.

NOTE: If you will only be using EFTPS-Through Your Financial Institution as a payment method, skip to item #24.

For side 2 please fill in

Employer Identification Number (EIN)

EIN:

--	--	--	--	--	--	--	--	--	--

9. Input Methods used for EFTPS-Direct (check as many boxes as you wish)

☐ Personal Computer

☐ Telephone

☐ TDD/TTY (for hearing impaired)

Note: For EFTPS-Direct, complete the additional information required about your financial institution. Enrollment in the EFTPS-Direct payment method will automatically enroll you for EFTPS-Through Your Financial Institution as well as Same Day Payment.

For EFTPS-Through Your Financial Institution, you initiate a tax payment through your financial institution. You must contact your financial institution to insure the institution is capable of making an EFTPS payment through the Automated Clearing House (ACH) or a Same Day Payment method. If you enroll for EFTPS-Through Your Financial Institution or Same Day Payment, you may also enroll for EFTPS-Direct by providing the financial institution information requested on items 20 through 23.

10-19. Optional Tax Form Payment Amount Limits (For EFTPS-Direct only)

This section is optional. You may set amount limits for each tax type to prevent an overpayment. The system will compare your payment amount against your stated limit and provide a warning if you exceed the limit. You may override the warning if you wish.

(20 through 23 must be completed if EFTPS-Direct will be used)

20. RTN. This is the nine-digit number associated with your financial institution. You may contact your financial institution to verify this number.

21. Account Number. Enter the number of the account you will use to pay your taxes.

22. Type. Please mark one box to indicate whether the account is a checking or savings account.

23. State and ZIP Code. Use the two-character letter abbreviation for the state your financial institution is located in and indicate ZIP Code.

24. Authorization. This section authorizes a Financial Agent of the U.S. Treasury to initiate tax payments from the account(s) you designate if you requested the EFTPS-Direct payment method.

25. Taxpayer Signature. The taxpayer must sign this section to authorize participation in EFTPS. If there is no signature, a form will be returned.

This section also provides authorization to share the information provided with your financial institution, required for the processing of the Electronic Federal Tax Payment System.

If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, the signer certifies that they have the authority to execute this authorization on behalf of the taxpayer.

Remember to sign and mail your enrollment form to the address on reverse side.

Tax Form Payment Amount Limits (EFTPS-Direct only)

10. 720	\$					11. 940	\$					12. 941	\$				
13. 943	\$					14. 945	\$					15. 990C	\$				
16. 990PF	\$					17. 990T	\$					18. 1042	\$				
19. 1120	\$																

Financial Institution Information (to be completed if EFTPS-Direct will be used)

20. RTN:										21. Account Number:											22. Type:	☐ Checking	☐ Savings
23. State:			ZIP Code:																				

Authorization

24. For both payment methods: Please read the following Authorization Agreement:

I (as defined as the taxpayer whose signature is below) hereby authorize the contact person (listed in item 5 of this form) and the financial institutions involved in the processing of my Electronic Federal Tax Payment System (EFTPS) payments to receive confidential information necessary to effect enrollment in EFTPS, electronic payment of taxes, and answer inquiries and resolve issues related to enrollment and payments. This information includes, but is not limited to, passwords, payment instructions, taxpayer name and identifying number, and payment transaction details. If signed by a corporate officer, partner, or fiduciary on behalf of the taxpayer, I certify that I have the authority to execute this authorization on behalf of the taxpayer. This authorization is to remain in full force and effect until the designated Financial Agents of the U.S. Treasury have received notification from me of termination in such time and in such manner to afford a reasonable opportunity to act on it.

Only EFTPS-Direct: Please read the following Authorization Agreement:

By completing the information in boxes 20-23 and signing below, I hereby authorize designated Financial Agents of the U.S. Treasury to initiate EFTPS-Direct debit entries to the financial institution account indicated above, for payment of Federal taxes owed to the IRS upon request by taxpayer or his/her representative, using the Electronic Federal Tax Payment System (EFTPS). I further authorize the financial institution named above to debit such entries to the financial institution account indicated above. All debits initiated by the U.S. Treasury designated Financial Agents pursuant to this authorization shall be made under U.S. Treasury regulations. This authorization is to remain in full force and effect until the designated Financial Agents of the U.S. Treasury have received written notification from me of termination in such time and in such manner as to afford a reasonable opportunity to act on it.

25. Taxpayer Signature

Taxpayer Signature

Print Name

Date

Title

For EFTPS use only

☐ Env ☐ B
☐ FTD ☐ C
☐ S/H ☐ D
☐ A ☐ E

Cat. No. 30770T



Form 9779B (Rev. 9-2000)

941 *e-file*



941*e-file* allows business filers to use a Payroll Service to file Form 941, EMPLOYER'S QUARTERLY FEDERAL TAX RETURN, electronically. The 941*e-file* program accepts and processes Forms 941 in the Electronic Data Interchange (EDI) format. Returns are transmitted nationwide via dial-up phone lines and menu-driven software directly to the IRS where they are processed at the Tennessee Computing Center (TCC) or the Austin Submission Processing Center (AUSPC). 941*e-file* accepts both timely filed returns and late filed returns for the current tax year as well as for one preceding tax year.

Program Benefits

Among the benefits of 941*e-file* are:

- Less than 1% error rate.
- Fast and secure processing, reduced to one week.
- Electronic acknowledgment within 48 hours of return receipt.
- Confidentiality of data ensured by electronic security measures

Participating in 941 *e-file*

Large payroll processing companies, bulk-filer reporting agents and/or large businesses capable of developing their own software are ideally suited to participate in this program. Small businesses, including Payroll Services, or Reporting Agents may also participate by developing their own software or by purchasing off-the-shelf software. There are certain application guidelines that must be followed before they can participate in the program. If your tax or Payroll Service does not already participate, refer them to the IRS Web site at www.irs.gov/elec_svs for more information on how they can be a part of 941*e-file*.

941 On-Line Filing (OLF)

941 OLF is a program that allows business filers to use the Internet to file Form 941 electronically. 941 OLF is convenient and secure. It requires a PIN from the IRS, which is obtained by registering on-line with an Approved Business *e-file* Provider and completing a Letter of Application (LOA), also on-line. To obtain a list of IRS Approved Business *e-file* Providers, go to the IRS Web site at www.irs.gov/elec_svs/abp.html. The PIN is sent to the business filer in 3-5 business days once IRS receives the information from the provider. The IRS requires a return receipt for activation of the PIN. The PIN will then be activated within 7 business days and you are then ready to file Form 941 electronically.

Schedule B, RECORD OF FEDERAL TAX LIABILITY and (beginning July 1, 2001) Form 941C, STATEMENT TO CORRECT INFORMATION, can be submitted electronically as attachments. In 2002, you will be able to use Direct Debit to pay a balance due.

Program Benefits

The advantages of 941 OLF are:

- It's paperless.
- Electronic acknowledgment is sent within 48 hours.
- Processing time is reduced to one week.
- Processing is quick with fewer errors (less than 1%).
- System validates security checks.
- Information quickly available to IRS Customer Service Help Desk.

Checklist

To qualify for 941 OLF, a filer must:

- ✓ Submit a timely LOA to the IRS.
- ✓ Have access to a personal computer and modem.
- ✓ Request a PIN through an electronically filed LOA with the IRS through a third party transmitter.
- ✓ Receive a PIN from the IRS to be used as the signature on the return.

941 TeleFile



941*TeleFile* is an interactive computer program designed to electronically file Form 941 using a touch-tone telephone. This program calculates the qualified caller's tax liability or any overpayment and begins the electronic filing process over the phone. 941*TeleFile* users also have the option of electronically and simultaneously paying the balance due on their Form 941 by Direct Debit (automatic withdrawal).

Only businesses that receive the special 941*TeleFile* Instructions and Tax Record as part of the Form 941 tax package and meet the qualifications in the instructions can use this program.

Businesses that receive the special tax package can access the 941*TeleFile* system with a touch-tone phone using the toll-free number listed in the tax package. An interactive program prompts users to make the necessary entries using the telephone keypad. The system repeats each entry to verify accuracy and allow users to immediately correct any mistakes.

At the end of the call, the system will prompt the caller to enter his or her electronic signature, consisting of their Social Security number and the first five letters of the authorized individual's last name (member, officer or agent of the taxpayer), or the entire last name if it is five characters or less. A confirmation number will then be issued to the caller as proof of filing. This alternative signature method makes the process completely paperless.

Requirements

Your business can use 941*TeleFile* if you:

- Receive the special *TeleFile* Tax Record as part of your 941 package.
- Are a monthly schedule depositor for the entire quarter. (If you are required to file a Schedule B, you are not eligible to use 941*TeleFile*.)
- Have not changed your business name, address and employer identification number (EIN) during the previous quarter.
- Have a break-even return, overpayment (which will be applied to the next quarter) or balance due return.
- Are not a seasonal employer.
- Have no schedules or attachments.
- Have no adjustments except fractions of cents.

Program Benefits



941*TeleFile* offers many advantages over traditional paper filing:

- It's easy. 941*TeleFile* provides step-by-step instructions over the phone. All of your entries will be repeated so you can check their accuracy.
- It's free. There is no charge for the phone call and no postage costs because there is nothing to mail.
- 941*TeleFile* figures your tax liability and any overpayment or balance due during the call.
- You can pay electronically. You can authorize an automatic withdrawal (Direct Debit) from your bank account if you have a balance due.
- You get a confirmation number as proof of filing before completing the call.
- Security measures are included. To ensure security and privacy you must know the amount of your 3rd quarter deposit for the prior year. (First-time filers have a special prompt.)
- The 941*TeleFile* Tax Record is an official record of your tax return.

Paying Electronically (Direct Debit)

Using Direct Debit to pay your tax offers you the convenience of electronically filing and paying at the same time. It's also safe and secure. Direct Debit information will be used only for the tax payment you authorize. No other withdrawals can be made. Bank account information is safeguarded with other tax information, and payment information will not be disclosed for any reason other than processing the transaction as authorized. As proof of payment, the tax payment is included on your monthly bank statement as a United States Treasury Tax Payment. You will be prompted by the 941*TeleFile* script to enter bank account information.

To use Direct Debit, you must know the account number and financial institution's Routing Transit Number (RTN). You must identify the type of account from which the payment is to be made (checking or savings). Account numbers and RTNs can be found on checks and share drafts. (See example on page 6-12.) Check with your financial institution if there are any questions regarding these numbers and to confirm that the financial institution will allow an electronic debit (withdrawal) from the account. The payment date will be the same as the date the balance due return is filed. Direct Debit payments are withdrawn in a single transaction, not installments.

Paul Maple
Deborah Maple
 1234 Windy Oaks Drive
 Anytown, MD 20000

EXAMPLE

PAY TO THE
ORDER OF _____ \$

ANYTOWN BANK
Anytown, MD 20000

Routing Number : 250250025 Account Number : 20202086 1234

1234
15-0000-0000

DOLLARS

Do not include the check number

You can call the Treasury Financial Agent toll-free at **1-888-353-4537** to inquire about payments. Wait at least 5 days after the return is filed before making inquiries. You will be notified if a payment is returned by the financial institution due to insufficient funds, incorrect account information, closed accounts, etc. If this occurs, IRS will send a notification letter to the address on the tax return explaining why the payment could not be processed. The letter will include instructions for sending a check to a unique address that has been established for this initiative. In the event the financial institution is unable to process the Direct Debit transaction, you will be responsible for the tax payment and for any penalties and interest.

940 *e-file* and 940 On-Line Filing (OLF)



940 *e-file* and 940 OLF are currently the only two options for electronically filing Form 940, EMPLOYER'S FEDERAL UNEMPLOYMENT TAX (FUTA) RETURN. Both are similar to the 941 *e-file* and 941 OLF programs.

The 940 *e-file* program allows the electronic filing of Form 940 by Reporting Agents who are filing this form on behalf of business taxpayers.

The 940 OLF program allows the electronic filing of Form 940 by business taxpayers submitting one or more Forms 940 for themselves to IRS using an Approved Third Party Transmitter.

In order for business filers to participate in these or other business *e-file* programs, an LOA is required. After the LOA is processed, the business taxpayer will receive a PIN to be used to sign the return(s) being filed.

Applicants who wish to participate in the 940 *e-file* or 940 OLF programs should allow 45 days from the time an LOA is submitted to the IRS for issuance of a PIN.

Program Benefits



By using either 940*e-file* or 940 OLF:

- Confidentiality of return data is ensured.
- Processing time is reduced to one week.
- Acknowledgment records are returned within 48 hours.
- Information is quickly available to IRS Customer Service sites.
- Balance due, refund and “even balance” returns are accepted.

Checklist

To qualify for the 940*e-file* or 940 OLF programs, a filer must:

- ✓ Submit a timely LOA to the IRS.
- ✓ Have access to a personal computer and modem.
- ✓ Request a PIN through an electronically filed LOA with the IRS through a Third Party Transmitter.
- ✓ Receive a PIN from the IRS to be used as the signature on the return.

e-filing Form 1065

Partnerships that engage in a trade or business or have gross income from sources within the United States can now *e-file* Form 1065, U.S. RETURN OF PARTNERSHIP INCOME. It is mandatory for partnerships with more than 100 partners/Schedules K-1 to *e-file* Form 1065. Transmitters who receive Form 1065 information from clients can transmit the data to the IRS electronically. **A partnership is considered a transmitter if the partnership transmits its own return.**

Program Benefits

The benefits of *e-filing* Form 1065 include:

- Less paper handling.
- Reduced costs.
- Improved accuracy and product quality.
- Electronic acknowledgment of return.

Contact your tax professional or an IRS Approved *e-file* for Business Provider about filing your partnership return electronically.

Note: A listing of IRS Approved *e-file* for Business Providers can be found at www.irs.gov/prod/elec_svs/abp.html.

Information Returns

You can submit your information returns (i.e., Forms W-3, W-2, 1096 and 1099) electronically. See Lesson 2 , page 2-23, Filing on Magnetic Media or Electronically.

Simplified Tax and Wage Reporting System (STAWRS)

The STAWRS Program is a cooperative effort between a number of federal agencies, state governments, private professional organizations and employers to test concepts to reduce employer burden while improving the efficiency and effectiveness of government operations. The scope of the program includes federal and state withholding, employment tax and wage information, and federal/state unemployment insurance and wage information. Agencies include the IRS, Social Security Administration, Department of Labor, state employment security agencies and State Departments of Revenue.

Program Benefits

Among the advantages of the STAWRS Program are:

- Single Point Filing.
- Streamlined Customer Service.
- Streamlined Requirements.



Information

For more information about STAWRS, log on to www.employers.gov.

1120e-file and 1120Se-file

In January 2003, corporations will be able to electronically file Form 1120, U.S. CORPORATION INCOME TAX RETURN, and Form 1120S, U.S. INCOME TAX RETURN FOR AN S CORPORATION.



The IRS is currently developing a new **Employment Tax e-file System** which is scheduled to begin operation in January 2002. For the most current information, log on to www.irs.gov/elec_svs/efile-bus.html.

Answers

Lesson 2

Exercise 1

1. Form SS-4, APPLICATION FOR EMPLOYER IDENTIFICATION NUMBER.
2. Form W-4.
3. (A1) 6.2% social security tax rate and
(A2) 1.45% Medicare tax rate
(B) Same as above.
(C) \$80,400 wage base limit in 2001 for social security tax.
(D) No wage base limit for Medicare tax.
4. (A) Form W-2.
(B) By January 31 of the following year.
5. Form 1099-MISC.
6. 31% (30.5% after Aug. 7, 2001).
7. Form W-5.
8. Forms W-2c and W-3c.

Answers

Lesson 3, Part 1

Exercise 1

Deposit Date	Amount
5/15/01	\$1,343.82
6/15/01	2,491.56
7/16/01	<u>2,241.62</u>
Total	\$ 6,077.00

See filled-in Exhibit 3.8 page A-3.

Exercise 2

Social Security Tax	\$ <u>0</u>
Medicare Tax	<u>0</u>
Federal Income Tax	\$ <u>12</u>

Exercise 3

Deposit Date by	Amount	Monthly Amount
Thursday 10/11/01	\$10,528.82	
Wednesday 10/24/01	10,253.20	\$20,782.02
Wednesday 11/7/01	9,514.50	
Wednesday 11/21/01	9,975.28	\$28,913.52
Wednesday 12/5/01	9,423.74	
Wednesday 12/19/01	10,528.82	
Thursday 1/3/02	10,528.82	
Thursday 1/3/02	764.00	\$21,821.64
Total	\$71,517.18	\$71,517.18

See filled-in Exhibit 3.9 pages A-4 and A-5.

ANSWER TO EXERCISE 1 – EXHIBIT 3.8

Form 941 (Rev. January 2001) Department of the Treasury Internal Revenue Service	Employer's Quarterly Federal Tax Return ▶ See separate instructions for information on completing this return. Please type or print.			OMB No. 1545-0029 T FF FD FP I T
Enter state code for state in which deposits were made only if different from state in address to the right (see page 2 of instructions).	Name (as distinguished from trade name) GREEN FOR EVER, INC. Trade name, if any	Date quarter ended 6/30/2001 Employer identification number 10-1234567 City, state, and ZIP code AUGUSTA, GA 32599	Address (number and street) 925 FERN AVE.	
If address is different from prior return, check here ☐	IRS Use			
1 1 1 1 1 1 1 1 1 2 3 3 3 3 3 3 3 3 4 4 4 5 5 5 6 7 8 8 8 8 8 8 8 9 9 9 9 9 10 10 10 10 10 10 10 10 10 10				
If you do not have to file returns in the future, check here ☐ and enter date final wages paid ▶				
If you are a seasonal employer, see Seasonal employers on page 1 of the instructions and check here ☐				
1 Number of employees in the pay period that includes March 12th . ▶ 1				
2 Total wages and tips, plus other compensation 26830 00				
3 Total income tax withheld from wages, tips, and sick pay 1972 00				
4 Adjustment of withheld income tax for preceding quarters of calendar year				
5 Adjusted total of income tax withheld (line 3 as adjusted by line 4—see instructions) 1972 00				
6 Taxable social security wages 6a 26830 00 × 12.4% (.124) = 6b 3326 92				
Taxable social security tips 6c × 12.4% (.124) = 6d				
7 Taxable Medicare wages and tips 7a 26830 00 × 2.9% (.029) = 7b 778 07				
8 Total social security and Medicare taxes (add lines 6b, 6d, and 7b). Check here if wages are not subject to social security and/or Medicare tax ☐ 8 4104 99				
9 Adjustment of social security and Medicare taxes (see instructions for required explanation) Sick Pay \$ _____ ± Fractions of Cents \$ +.01 ± Other \$ _____ = 9 01				
10 Adjusted total of social security and Medicare taxes (line 8 as adjusted by line 9—see instructions) 10 4105 00				
11 Total taxes (add lines 5 and 10) 11 6077 00				
12 Advance earned income credit (EIC) payments made to employees 12				
13 Net taxes (subtract line 12 from line 11). If \$2,500 or more, this must equal line 17, column (d) below (or line D of Schedule B (Form 941)) 13 6077 00				
14 Total deposits for quarter, including overpayment applied from a prior quarter 14 6077 00				
15 Balance due (subtract line 14 from line 13). See instructions 15				
16 Overpayment. If line 14 is more than line 13, enter excess here ▶ \$ _____ and check if to be: ☐ Applied to next return or ☐ Refunded.				
• All filers: If line 13 is less than \$2,500, you need not complete line 17 or Schedule B (Form 941). • Semiweekly schedule depositors: Complete Schedule B (Form 941) and check here ☐ • Monthly schedule depositors: Complete line 17, columns (a) through (d), and check here. ☒				
17 Monthly Summary of Federal Tax Liability. Do not complete if you were a semiweekly schedule depositor.				
(a) First month liability	(b) Second month liability	(c) Third month liability	(d) Total liability for quarter	
1343.82	2491.56	2241.62	6077.00	
Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.				
Signature ▶ R.M. Green, Jr.		Print Your Name and Title ▶ R.M. GREEN, JR. TREAS. Date ▶ 7/29/2001		
For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2001)				

ANSWER TO EXERCISE 3 – EXHIBIT 3.9

Form 941 (Rev. January 2001) Department of the Treasury Internal Revenue Service	Employer's Quarterly Federal Tax Return ▶ See separate instructions for information on completing this return. Please type or print.																																																																					
Enter state code for state in which deposits were made only if different from state in address to the right ▶ 11 (see page 2 of instructions).	<table style="width: 100%;"> <tr> <td style="width: 50%;"> Name (as distinguished from trade name) PAUL'S AUTO SHOP, INC. Trade name, if any </td> <td style="width: 50%;"> Date quarter ended 12/31/2001 Employer identification number 10-9876543 City, state, and ZIP code CANDU, LA 88877 </td> </tr> <tr> <td colspan="2"> Address (number and street) 425 AUTO STRIP DR. </td> </tr> </table>	Name (as distinguished from trade name) PAUL'S AUTO SHOP, INC. Trade name, if any	Date quarter ended 12/31/2001 Employer identification number 10-9876543 City, state, and ZIP code CANDU, LA 88877	Address (number and street) 425 AUTO STRIP DR.																																																																		
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	OMB No. 1545-0029 <table style="width: 100%;"> <tr><td>T</td></tr> <tr><td>FF</td></tr> <tr><td>FD</td></tr> <tr><td>FP</td></tr> <tr><td>I</td></tr> <tr><td>T</td></tr> </table>	T	FF	FD	FP	I	T																																																															
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If address is different from prior return, check here ▶ ☐	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">1</td><td style="width: 10%;">2</td><td style="width: 10%;">3</td><td style="width: 10%;">3</td><td style="width: 10%;">3</td><td style="width: 10%;">3</td><td style="width: 10%;">3</td><td style="width: 10%;">3</td><td style="width: 10%;">4</td><td style="width: 10%;">4</td><td style="width: 10%;">4</td><td style="width: 10%;">5</td><td style="width: 10%;">5</td><td style="width: 10%;">5</td></tr> <tr> <td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td><td style="border: 1px solid black; height: 20px;"></td></tr> <tr> <td style="text-align: center;">6</td><td style="text-align: center;">7</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">8</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">9</td><td style="text-align: center;">10</td><td style="text-align: center;">10</td><td style="text-align: center;">10</td><td style="text-align: center;">10</td><td style="text-align: center;">10</td><td style="text-align: center;">10</td></tr> </table>	1	1	1	1	1	1	1	1	1	1	2	3	3	3	3	3	3	4	4	4	5	5	5																								6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	10	10	10	10	10	10
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6	7	8	8	8	8	8	8	8	8	8	9	9	9	9	9	9	10	10	10	10	10	10																																																
If you do not have to file returns in the future, check here ▶ ☐ and enter date final wages paid ▶ _____ If you are a seasonal employer, see Seasonal employers on page 1 of the instructions and check here ▶ ☐																																																																						
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Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Signature ▶ <u>Paul Potter</u> Print Your Name and Title ▶ <u>PAUL POTTER, PRES.</u> Date ▶ <u>1/28/2002</u>																																																																					
For Privacy Act and Paperwork Reduction Act Notice, see back of Payment Voucher. Cat. No. 17001Z Form 941 (Rev. 1-2001)																																																																						

ANSWER TO EXERCISE 3 - EXHIBIT 3.9

SCHEDULE B (FORM 941) (Rev. November 1998) Department of the Treasury Internal Revenue Service	Employer's Record of Federal Tax Liability ▶ See Circular E for more information about employment tax returns. ▶ Attach to Form 941 or 941-SS.	OMB No. 1545-0029
Name as shown on Form 941 (or Form 941-SS) PAUL'S AUTO SHOP, INC.		Employer identification number 10-9876543
		Date quarter ended 12/31/2001
You must complete this schedule if you are required to deposit on a semiweekly schedule, or if your tax liability on any day is \$100,000 or more. Show tax liability here, not deposits. (The IRS gets deposit data from FTD coupons or EFTPS.)		
A. Daily Tax Liability—First Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
Total tax liability for first month of quarter 10,528.82		20,782.02
B. Daily Tax Liability—Second Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
Total tax liability for second month of quarter 9,514.50		28,913.52
C. Daily Tax Liability—Third Month of Quarter		
1	8	15
2	9	16
3	10	17
4	11	18
5	12	19
6	13	20
7	14	21
Total tax liability for third month of quarter 10,528.82		21,821.64
Total for quarter (add lines A, B, and C). This should equal line 13 of Form 941 (or line 10 of Form 941-SS)		71,517.18

For Paperwork Reduction Act Notice, see page 2. Cat. No. 11967Q Schedule B (Form 941) (Rev. 11-98)

Answers

Lesson 3, Part 2

Exercise 1

- (A) \$30,600
- (B) \$244.80
- (C) 5/1/00
- (D) \$11,200
- (E) \$89.60

Mr. Wilson's Business		
Employee	Wages subject to FUTA tax	
	1st qtr.	2nd qtr.
R. Riding	\$4,500	\$2,500
M. Lamb	7,000	—
J. Nimble	3,400	3,400
C. Moon	5,600	1,400
C. Fiddle	4,900	2,100
P. Son	5,200	1,800
Total Wages	\$30,600	\$11,200 (x.008)

- (F) No deposit required for under \$100.
- (G) 90%

Exercise 2

- (A) 7/31/00
- (B) \$101.60
- (C) \$44.00

See filled-in Exhibit 3.14 page A-7.

ANSWER TO EXERCISE 2 – EXHIBIT 3.14

Form 940-EZ Department of the Treasury Internal Revenue Service (99)	Employer's Annual Federal Unemployment (FUTA) Tax Return	OMB No. 1545-1110 2000			
▶ See separate instructions for Form 940-EZ for information on completing this form.					
Name (as distinguished from trade name) ACME, INC. Trade name, if any		Calendar year 12-31-2000			
Address and ZIP code 123 FIRST ST. CEDAR, MI 49621		Employer identification number 10 7654321			
Answer the questions under Who May Use Form 940-EZ on page 2. If you cannot use Form 940-EZ, you must use Form 940.					
A Enter the amount of contributions paid to your state unemployment fund. (See separate instructions.) . . . ▶ \$ 491.140					
B (1) Enter the name of the state where you have to pay contributions . . . ▶ MICHIGAN (2) Enter your state reporting number as shown on your state unemployment tax return ▶ 12345					
If you will not have to file returns in the future, check here (see Who Must File in separate instructions), and complete and sign the return. ▶ ☐					
If this is an Amended Return, check here . . . ▶ ☐					
Part I Taxable Wages and FUTA Tax					
1 Total payments (including payments shown on lines 2 and 3) during the calendar year for services of employees		1 26 000 00			
2 Exempt payments. (Explain all exempt payments, attaching additional sheets if necessary.) ▶		2			
3 Payments of more than \$7,000 for services. Enter only amounts over the first \$7,000 paid to each employee. Do not include any exempt payments from line 2. (See separate instructions.) The \$7,000 amount is the Federal wage base. Your state wage base may be different. Do not use your state wage limitation . . .		3 7800 00			
4 Total exempt payments (add lines 2 and 3) . . .		4 7800 00			
5 Total taxable wages (subtract line 4 from line 1) . . .		5 18 200 00			
6 FUTA tax. Multiply the wages on line 5 by .008 and enter here. (If the result is over \$100, also complete Part II.)		6 145 60			
7 Total FUTA tax deposited for the year, including any overpayment applied from a prior year . . .		7 101 60			
8 Balance due (subtract line 7 from line 6). Pay to the "United States Treasury" . . .		8 44 00			
9 Overpayment (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return or ☐ Refunded ▶		9			
Part II Record of Quarterly Federal Unemployment Tax Liability (Do not include state liability.) Complete only if line 6 is over \$100.					
Quarter	First (Jan. 1 – Mar. 31)	Second (Apr. 1 – June 30)	Third (July 1 – Sept. 30)	Fourth (Oct. 1 – Dec. 31)	Total for year
Liability for quarter	52.00	49.60	27.60	16.40	145.60
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and, to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was, or is to be, deducted from the payments to employees.					
Signature ▶ Stanley Wood		Title (Owner, etc.) ▶ STANLEY WOOD, V.P.		Date ▶ 1/30/2001	
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 10983G		Form 940-EZ (2000)	
DETACH HERE					
Form 940-EZ(V) Department of the Treasury Internal Revenue Service		Form 940-EZ Payment Voucher			OMB No. 1545-1110 2000
Use this voucher only when making a payment with your return.					
Complete boxes 1, 2, 3, and 4. Do not send cash, and do not staple your payment to this voucher. Make your check or money order payable to the "United States Treasury". Be sure to enter your employer identification number, "Form 940-EZ", and "2000" on your payment.					
1 Enter the first four letters of your last name (business name if partnership or corporation). A C M E		2 Enter your employer identification number. 10 7654321		3 Enter the amount of your payment. \$ 44.00	
Instructions for Box 1 —Individuals (sole proprietors, trusts, and estates)— Enter the first four letters of your last name. —Corporations and partnerships—Enter the first four characters of your business name (omit "The" if followed by more than one word).		4 Enter your business name (individual name for sole proprietors) ACME, INC. Enter your address 123 FIRST ST. CEDAR, MI 49621			

Answer

Lesson 4

ANSWER TO EXERCISE – EXHIBIT 4.4

Form 8829	Expenses for Business Use of Your Home ▶ File only with Schedule C (Form 1040). Use a separate Form 8829 for each home you used for business during the year. ▶ See separate instructions.	OMB No. 1545-1266 2000 Attachment Sequence No. 66
Department of the Treasury Internal Revenue Service (99)		Your social security number
Name(s) of proprietor(s) FRANK		131 00 0001

Part I Part of Your Home Used for Business		
1 Area used regularly and exclusively for business, regularly for day care, or for storage of inventory or product samples. See instructions	1	280
2 Total area of home	2	2,800
3 Divide line 1 by line 2. Enter the result as a percentage	3	10 %
• For day-care facilities not used exclusively for business, also complete lines 4-6. • All others, skip lines 4-6 and enter the amount from line 3 on line 7.		
4 Multiply days used for day care during year by hours used per day	4	hr.
5 Total hours available for use during the year (366 days × 24 hours). See instructions	5	8,784 hr.
6 Divide line 4 by line 5. Enter the result as a decimal amount	6	
7 Business percentage. For day-care facilities not used exclusively for business, multiply line 6 by line 3 (enter the result as a percentage). All others, enter the amount from line 3 ▶	7	10 %

Part II Figure Your Allowable Deduction																																																																																																																	
8 Enter the amount from Schedule C, line 29, plus any net gain or (loss) derived from the business use of your home and shown on Schedule D or Form 4797. If more than one place of business, see instructions. See instructions for columns (a) and (b) before completing lines 9-20.	8	30,000 -																																																																																																															
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;"></th> <th style="width: 20%; text-align: center;">(a) Direct expenses</th> <th style="width: 30%; text-align: center;">(b) Indirect expenses</th> </tr> <tr> <td>9 Casualty losses. See instructions</td> <td></td> <td></td> </tr> <tr> <td>10 Deductible mortgage interest. See instructions</td> <td></td> <td style="text-align: right;">10,000 -</td> </tr> <tr> <td>11 Real estate taxes. See instructions</td> <td></td> <td style="text-align: right;">2,500 -</td> </tr> <tr> <td>12 Add lines 9, 10, and 11.</td> <td></td> <td style="text-align: right;">12,500 -</td> </tr> <tr> <td>13 Multiply line 12, column (b) by line 7</td> <td style="text-align: center;">13</td> <td></td> </tr> <tr> <td>14 Add line 12, column (a) and line 13.</td> <td></td> <td style="text-align: right;">1,250 -</td> </tr> <tr> <td>15 Subtract line 14 from line 8. If zero or less, enter -0-</td> <td style="text-align: center;">15</td> <td style="text-align: right;">28,750 -</td> </tr> <tr> <td>16 Excess mortgage interest. See instructions</td> <td></td> <td></td> </tr> <tr> <td>17 Insurance</td> <td></td> <td style="text-align: right;">500 -</td> </tr> <tr> <td>18 Repairs and maintenance</td> <td style="text-align: right;">200 -</td> <td style="text-align: right;">2,000 -</td> </tr> <tr> <td>19 Utilities</td> <td></td> <td style="text-align: right;">2,200 -</td> </tr> <tr> <td>20 Other expenses. See instructions</td> <td></td> <td></td> </tr> <tr> <td>21 Add lines 16 through 20</td> <td style="text-align: right;">200 -</td> <td style="text-align: right;">4,700 -</td> </tr> <tr> <td>22 Multiply line 21, column (b) by line 7</td> <td style="text-align: center;">22</td> <td style="text-align: right;">470 -</td> </tr> <tr> <td>23 Carryover of operating expenses from 1999 Form 8829, line 41</td> <td style="text-align: center;">23</td> <td></td> </tr> <tr> <td>24 Add line 21 in column (a), line 22, and line 23</td> <td style="text-align: center;">24</td> <td style="text-align: right;">670 -</td> </tr> <tr> <td>25 Allowable operating expenses. Enter the smaller of line 15 or line 24</td> <td style="text-align: center;">25</td> <td style="text-align: right;">670 -</td> </tr> <tr> <td>26 Limit on excess casualty losses and depreciation. Subtract line 25 from line 15.</td> <td style="text-align: center;">26</td> <td style="text-align: right;">28,080 -</td> </tr> <tr> <td>27 Excess casualty losses. See instructions</td> <td style="text-align: center;">27</td> <td></td> </tr> <tr> <td>28 Depreciation of your home from Part III below</td> <td style="text-align: center;">28</td> <td style="text-align: right;">517 -</td> </tr> <tr> <td>29 Carryover of excess casualty losses and depreciation from 1999 Form 8829, line 42</td> <td style="text-align: center;">29</td> <td></td> </tr> <tr> <td>30 Add lines 27 through 29</td> <td style="text-align: center;">30</td> <td style="text-align: right;">517 -</td> </tr> <tr> <td>31 Allowable excess casualty losses and depreciation. Enter the smaller of line 26 or line 30</td> <td style="text-align: center;">31</td> <td style="text-align: right;">517 -</td> </tr> <tr> <td>32 Add lines 14, 25, and 31</td> <td style="text-align: center;">32</td> <td style="text-align: right;">2,437 -</td> </tr> <tr> <td>33 Casualty loss portion, if any, from lines 14 and 31. Carry amount to Form 4684, Section B</td> <td style="text-align: center;">33</td> <td></td> </tr> <tr> <td>34 Allowable expenses for business use of your home. Subtract line 33 from line 32. Enter here and on Schedule C, line 30. If your home was used for more than one business, see instructions ▶</td> <td style="text-align: center;">34</td> <td style="text-align: right;">2,437 -</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="3">Part III Depreciation of Your Home</td> </tr> <tr> <td style="width: 70%;">35 Enter the smaller of your home's adjusted basis or its fair market value. See instructions</td> <td style="width: 10%; text-align: center;">35</td> <td style="width: 20%; text-align: right;">250,000 -</td> </tr> <tr> <td>36 Value of land included on line 35</td> <td style="text-align: center;">36</td> <td style="text-align: right;">40,000 -</td> </tr> <tr> <td>37 Basis of building. Subtract line 36 from line 35</td> <td style="text-align: center;">37</td> <td style="text-align: right;">210,000 -</td> </tr> <tr> <td>38 Business basis of building. Multiply line 37 by line 7</td> <td style="text-align: center;">38</td> <td style="text-align: right;">21,000 -</td> </tr> <tr> <td>39 Depreciation percentage. See instructions</td> <td style="text-align: center;">39</td> <td style="text-align: right;">2.461 %</td> </tr> <tr> <td>40 Depreciation allowable. Multiply line 38 by line 39. Enter here and on line 28 above. See instructions</td> <td style="text-align: center;">40</td> <td style="text-align: right;">517 -</td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="3">Part IV Carryover of Unallowed Expenses to 2001</td> </tr> <tr> <td style="width: 70%;">41 Operating expenses. Subtract line 25 from line 24. If less than zero, enter -0-</td> <td style="width: 10%; text-align: center;">41</td> <td style="width: 20%; text-align: right;">-</td> </tr> <tr> <td>42 Excess casualty losses and depreciation. Subtract line 31 from line 30. If less than zero, enter -0-</td> <td style="text-align: center;">42</td> <td style="text-align: right;">-</td> </tr> </table> For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 13232M Form 8829 (2000)				(a) Direct expenses	(b) Indirect expenses	9 Casualty losses. See instructions			10 Deductible mortgage interest. See instructions		10,000 -	11 Real estate taxes. 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Answers

Lesson 5

- (A) (1) Yes
(2) Yes
- (B) See filled-in Exhibits 5.8 and 5.9 on pages A-10 through A-12
- (C) (1) Postmarked within 21 days of Tanya's start date – by July 23.
(2) Mailed as soon as possible.
- (D) (1) Yes
(2) No

ANSWER TO EXERCISE - EXHIBIT 5.8, PAGE 1

Form 8850 (Rev. November 1998) Department of the Treasury Internal Revenue Service	Pre-Screening Notice and Certification Request for the Work Opportunity and Welfare-to-Work Credits ▶ See separate instructions.	OMB No. 1545-1500
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Job applicant: Fill in the lines below and check any boxes that apply. Complete only this side.

Your name TANYA MICHELLE ELLIS Social security number ▶ 404 00 7755

Street address where you live 233 E. MARKET ST.

City or town, state, and ZIP code WATERLOO, TX 78799

Telephone no. (512) 555-1212

If you are under age 25, enter your date of birth (month, day, year) 09/12/79

Work Opportunity Credit

1 ☐ Check here if you received a conditional certification from the state employment security agency (SESA) or a participating local agency for the work opportunity credit.

2 ☒ Check here if any of the following statements apply to you.

- I am a member of a family that has received assistance from Aid to Families with Dependent Children (AFDC) or its successor program, Temporary Assistance for Needy Families (TANF), for any 9 months during the last 18 months.
- I am a veteran and a member of a family that received food stamps for at least a 3-month period within the last 15 months.
- I was referred here by a rehabilitation agency approved by the state or the Department of Veterans Affairs.
- I am at least age 18 but **not** over age 24 and I am a member of a family that:
 - a Received food stamps for the last 6 months, OR
 - b Received food stamps for at least 3 of the last 5 months, BUT is no longer eligible to receive them.
- Within the past year, I was convicted of a felony or released from prison for a felony AND during the last 6 months I was a member of a low-income family.
- I received supplemental security income (SSI) benefits for any month ending within the last 60 days.

Welfare-to-Work Credit

3 ☐ Check here if you received a conditional certification from the SESA or a participating local agency for the welfare-to-work credit.

4 ☒ Check here if you are a member of a family that:

- Received AFDC or TANF payments for at least the last 18 months, OR
- Received AFDC or TANF payments for any 18 months beginning after August 5, 1997, OR
- Stopped being eligible for AFDC or TANF payments after August 5, 1997, because Federal or state law limited the maximum time those payments could be made.

All Applicants

Under penalties of perjury, I declare that I gave the above information to the employer on or before the day I was offered a job, and it is, to the best of my knowledge, true, correct, and complete.

Job applicant's signature ▶ Tanya M. Ellis Date 06/26/2001

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 22851L Form **8850** (Rev. 11-98)

ANSWER TO EXERCISE - EXHIBIT 5.8, PAGE 2

Form 8850 (Rev. 11-98)

Page **2**

For Employer's Use Only

Employer's name WORK IS US CORP. Telephone no. (512) 555-6600 EIN 74-8906543Street address 456 W. HIGHWAY 12City or town, state, and ZIP code WATERLOO, TX 78799

Person to contact, if different from above _____ Telephone no. () -

Street address _____

City or town, state, and ZIP code _____

If, based on the individual's age and home address, he or she is a member of group 4 or 6 (as described under **Members of Targeted Groups** in the separate instructions), enter that group number (4 or 6) ▶ _____

DATE APPLICANT: Gave information 06/25/01 Was offered job 06/26/01 Was hired 06/26/01 Started job 07/02/01

Under penalties of perjury, I declare that I completed this form on or before the day a job was offered to the applicant and that the information I have furnished is, to the best of my knowledge, true, correct, and complete. Based on the information the job applicant furnished on page 1, I believe the individual is a member of a targeted group or a long-term family assistance recipient. I hereby request a certification that the individual is a member of a targeted group or a long-term family assistance recipient.

Employer's signature ▶ Bill Brown Title H.R. Manager Date 06/26/01

Privacy Act and Paperwork Reduction Act Notice

Section references are to the Internal Revenue Code.

Section 51(d)(12) permits a prospective employer to request the applicant to complete this form and give it to the prospective employer. The information will be used by the employer to complete the employer's Federal tax return. Completion of this form is voluntary and may assist members of targeted groups and long-term family assistance recipients in securing employment. Routine uses of this form include giving it to the state employment security agency (SESA), which will contact appropriate sources to confirm that the applicant is a member of a targeted group or a long-term family

assistance recipient. This form may also be given to the Internal Revenue Service for administration of the Internal Revenue laws, to the Department of Justice for civil and criminal litigation, to the Department of Labor for oversight of the certifications performed by the SESA, and to cities, states, and the District of Columbia for use in administering their tax laws.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping 2 hr., 47 min.
Learning about the law or the form 28 min.
Preparing and sending this form to the SESA 36 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001.

DO NOT send this form to this address. Instead, see **When and Where To File** in the separate instructions.

ANSWER TO EXERCISE - EXHIBIT 5.9

Individual Characteristics Form Work Opportunity Tax Credit and Welfare-to-Work Tax Credit		U.S. Department of Labor Employment and Training Administration U.S. Employment Service		
1. CONTROL NO. (For Agency Use Only)		Individual Information (Instructions on the Back)		OMB Control No.: 1205-0371 Expires: 07/31/98
3. EMPLOYER NAME/ADDRESS WORK IS US CORPORATION 456 W. HIGHWAY 12 WATERLOO, TX 78799		4. EMPLOYER ID NUMBER 74-8906543		5. EMPLOYMENT START DATE 07-02-01 Starting Wage: \$ 10.00 per hour POSITION: PRODUCT HANDLER
7. NAME OF INDIVIDUAL (Last, First, Middle) ELLIS, TANYA MICHELLE		8. SOCIAL SECURITY NUMBER 404-00-7755		
The above named individual is determined to have the following characteristics for WOTC Target Group Certification:				
9. Age between 16 - 25? Yes ☒ No ☐ If YES, indicate your "Date of Birth" below: Date of Birth 09/12/79		10. A veteran and a member of a family that received Food Stamps for a period of at least 3 months in the last 15 months. Yes ☐ No ☒ If YES, also complete Box 17.		11. Is a member of a family that received AFDC (TANF) benefits for any 9 months in the last 18 months. Yes ☒ No ☐ If YES, also complete Box 17.
12. Is a member of a family that received Food Stamps for the last 6 months. Yes ☒ No ☐ or for at least a 3-month period within the last 5 months, BUT is no longer receiving them? Yes ☐ No ☐ If YES to either, also complete Box 17.		13. In the past year has been convicted of a felony or released from prison after a felony conviction. Yes ☐ No ☒ If YES, complete below: Date of Conviction _____ Date of Release _____ Total Income for the past 6 months for all family members living in the same household? Total Income: _____ (If No Income, Enter 0 above) No. of family members living in the same household for the past 6 months, including yourself: _____		14. Lives and plans to continue living in a Federal Empowerment Zone or Enterprise Community. Yes ☐ No ☒ 16. Received Supplemental Security Income (SSI) benefits for any month ending within the last 60 days. Yes ☐ No ☒ 17. If individual is not a primary recipient of benefits, please provide the following: Name of Primary Recipient _____ City/State of Benefits _____
15. Is receiving or has received Rehabilitation Services through a State Rehabilitation Services program or the Veterans' Administration. Yes ☐ No ☒				
This section is to be completed by individuals starting work after December 31, 1997, under the Welfare-to-Work Tax Credit only.				
18. Is a member of a family that: - Has received AFDC or TANF payments for at least the last 18 consecutive months: Yes ☒ No ☐ or - Has received/is receiving AFDC or TANF payments for any 18 months starting after August 5, 1997: Yes ☐ No ☐ or - Stopped being eligible for AFDC or TANF payments after Aug. 5, 1997 because Federal or state law limited the maximum time such assistance is payable: Yes ☐ No ☐				
19. SOURCES USED TO DOCUMENT ELIGIBILITY: DRIVER'S LICENSE				
Note: I certify that the information is true and correct to the best of my knowledge. I understand that the information above may be subject to verification. The signature of the party completing this form is required below.				
20. SIGNATURE: Tanya M. Ellis			21. DATE: June 26, 2001	
Page 1 of 3			ETA-9061 (Rev. Jan. 1998)	

2000

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8	9	10	11	12	13	14	5	6	7	8	9	10	11	2	3	4	5	6	7	8	7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8		
15	16	17	18	19	20	21	12	13	14	15	16	17	18	9	10	11	12	13	14	15	14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15		
22	23	24	25	26	27	28	19	20	21	22	23	24	25	16	17	18	19	20	21	22	21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22		
29	30	31					26	27	28	29	30	31		23	24	25	26	27	28	29	28	29	30	31				25	26	27	28	29	30		23	24	25	26	27	28	29	30	31
														30																													

2002

January							February							March							April							May							June							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S								
						1							1	2							1	2	3	4	5	6	7		1	2	3	4	5	6								
6	7	8	9	10	11	12	3	4	5	6	7	8	9	3	4	5	6	7	8	9	7	8	9	10	11	12	13	5	6	7	8	9	10	11								
13	14	15	16	17	18	19	10	11	12	13	14	15	16	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18								
20	21	22	23	24	25	26	17	18	19	20	21	22	23	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25								
27	28	29	30	31			24	25	26	27	28			24	25	26	27	28	29	30	28	29	30					26	27	28	29	30	31		23	24	25	26	27	28	29	30
July							August							September							October							November							December							
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S								
						1							1	2	3						1	2	3	4	5	6	7		1	2	3			1	2							
7	8	9	10	11	12	13	4	5	6	7	8	9	10	8	9	10	11	12	13	14	6	7	8	9	10	11	12	3	4	5	6	7	8	9								
14	15	16	17	18	19	20	11	12	13	14	15	16	17	15	16	17	18	19	20	21	13	14	15	16	17	18	19	10	11	12	13	14	15	16								
21	22	23	24	25	26	27	18	19	20	21	22	23	24	18	19	20	21	22	23	24	20	21	22	23	24	25	26	17	18	19	20	21	22	23								
28	29	30	31				25	26	27	28	29	30	31	25	26	27	28	29	30		27	28	29	30	31			24	25	26	27	28	29	30								

