NOSEWORTHY FINANCIAL SERVICES

2012 SEASON

FILING A SCHEDULE C

As a client of Noseworthy Financial Services we ask that you read the following information provided by the Internal Revenue Department. The last several years we have explained the importance of establishing good record keeping and tracking Income and Expenses.

Recordkeeping

Why should taxpayers conducting a trade or business keep records?

Good records will help the taxpayer do the following:

- Monitor the progress of their business. A taxpayer conducting a business needs good records to monitor the progress of the business. Records can show whether the business is improving, which items are selling, or what changes may need to be made. Good records can increase the likelihood of business success.
- Identify source and amount of receipts. A taxpayer will receive money or property from many sources. Your records can identify the source of your receipts. You need this information to separate business from non-business receipts and taxable from nontaxable income.
- Keep track of deductible expenses. A taxpayer is required to deduct the correct amount of expenses, and only the allowable expenses on their tax return. Good records are necessary to record the source and amount of expenses incurred in the business.
- Prepare tax returns. Taxpayers need good records to prepare tax returns. These records must support the income, expenses, and credits reported.
- Support items reported on tax returns. Taxpayers must keep business records available at all times for inspection by the IRS. If the IRS examines the tax returns, the taxpayer will be asked to explain the items reported. A complete set of records will speed up the examination.

What should be included in the taxpayer's books and records?

A system of books and records may be as simple as a calendar showing business income earned each day and business expenses paid each day or they may be a detailed accounting system. The system of records should include enough information to correctly determine gross receipts, business expenses incurred and the purchase price of assets acquired for use in the business. These records should also include inventory purchases, payroll, and other transactions occurring in the course of operating the business.

The taxpayer's books and records should include supporting documents. Supporting documents include sales slips, paid bills, invoices, receipts, deposit slips, and canceled checks. These documents are important to support the entries in the books and the tax return. These records will also help the taxpayer determine the value of inventory at the end of the year.

What are examples of supporting documents?

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- **Gross receipts.** Gross receipts are the income received by the business. The taxpayer should keep supporting documents that show the amounts and sources of gross receipts. Documents that show gross receipts include the following:

Please check the records you have and please provide them to us to complete your income tax return.

  - Cash register receipts
  - Bank statement and deposit slips
  - Receipt books
  - Invoices
  - Credit card charge slips
  - Forms 1099 MISC
  - Any format (calendar, income ledger, etc.) that the taxpayer consistently uses to record receipts of the business

- **Purchases.** Purchases are the items bought to resell to customers. Supporting documents should show the amount paid and that the amount was for purchases. Documents for purchases include the following:

  - Canceled checks
  - Cash register tape receipts
  - Credit card sales slips
  - Invoices

- **Expenses.** Expenses are the costs incurred (other than purchases) to carry on the business. The supporting documents should show the amount paid and that the amount was for a business expense. Documents for expenses include the following:

  - Canceled checks
  - Cash register receipts
  - Account statements
  - Credit card sales slips
  - Invoices
  - Petty cash slips for small cash payments

- **Assets.** Assets are the property, such as machinery and furniture owned and used in the business. Taxpayers must keep records to verify certain information about business assets. They need records to figure the annual depreciation and the gain or loss when assets are sold. The records should show the following information:

  - When and how an asset was acquired
  - Purchase price including purchase invoice, real estate closing statements, cancelled checks, etc.
  - Cost of any improvements including invoices and cancelled checks
  - Section 179 deduction taken
  - Deductions taken for depreciation
  - Deductions taken for casualty losses, such as losses resulting from fires or storms
  - How the asset was used

- When and how the asset was disposed of, including sales invoice or closing statement
- Selling price
- Expenses of sale

What Business Expenses can be claimed on Schedule C?

Schedule C should include current operating costs of running the business. To be deductible, a business expense must be both ordinary and necessary.

- An ordinary expense is one that is common and accepted in your field of business, trade, or profession.
- A necessary expense is one that is helpful and appropriate for your business, trade, or profession.

To be correct and complete, the Schedule C should include all allowable business expenses. The taxpayer's records should not include any personal expenses. The following is a brief list of some common business expenses. See the Schedule C instructions and IRS Publication 535, *Business Expenses*, Publication 946, *How to Depreciate Property*, and Publication 587, *Business Use of the Home*, for more information. Common business expenses include the following:

- Advertising
- Supplies
- Insurance
- Payroll or contract labor
- Utilities
- Interest on business loans
- Legal and professional fees
- Repairs
- Taxes
- Utilities
- Car and truck expenses
- Depreciation
- Business use of the home - Most of your clients won't qualify as they do not meet the exclusive use requirement. Most day care providers will not qualify as the statute requires a license or proof of exemption from the license requirement.
- Travel, transportation, entertainment, and gift expenses. Specific recordkeeping rules apply to these expenses. For more information, see IRS Publication 463.
- Employment taxes. There are specific employment tax records a taxpayer must keep. For a list, see IRS Publication 15.

TURN TO THE NEXT PAGE, SIGN AND BRING IN

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Taxpayer: ____

Business Name: ____

Date: __________________

I declare that I have read the above statement and have provided to Noseworthy Financial Services the Correct information, to file my Federal and State Income Tax for the 2011 filing season. I have all supporting documentation to support my information.

THIS FORM MUST BE RETURNED WITH YOUR TAX PREPARATION INFORMATION