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Quarterly Corporate Newsletter

1st Quarter 2003

Volume 03:01

Extension to File Taxes

If I filed an extension of time to file your Corporation Form 1120-S, please keep the following in mind.

1. Your personal tax returns are still due on April 15, 2003. Even though an extension was filed for your Corporation's tax return, you are still required to file your personal tax return by April 15th unless you also request an extension to file your personal tax returns. *Your personal tax return cannot be filed until the Corporation return is completed.*
2. If you have a balance due on your personal tax return, you must make a payment with your extension, otherwise your extension will not be valid.
3. I need to have all of your corporate and personal information by April 1st. I cannot guarantee making the deadlines if your information is received after April 1, 2003.

Leased Office Space

Does your corporation lease office space from you within your personal residence? If so you are helping to reduce your taxes by taking deductions for depreciation, repairs and maintenance and utilities. What is required?

1. A lease agreement between yourself and the Corporation.
2. Square footage allocation of your office space in relation to the rest of your home.

3. Your company must issue to you a 1099 for rental income.
4. You must report your rental income and expenses on your personal tax return on schedule E.
5. Your corporation is able to deduct the rental payments.
6. You will need copies of all utilities bills, your home owners insurance, and repairs or improvements related to the office space.

1st Quarter Compliance

Monthly Accounting Clients

Please try to have your March *financial information* to me between April 5-10th. This will help greatly in determining your monthly payroll tax deposits (due on April 15th), and in getting your quarterly payroll tax returns completed and timely filed by April 30th.

Quarterly Accounting Clients

Please try to have your January, February, and March *financial information* to me between April 5-10th. This will help greatly in determining your salary requirements and in getting your quarterly payroll tax returns completed and timely filed by April 30th.

Required Financial Information

What is that stuff you need again?

1. Bank Statements and Cancelled Checks.
2. Receipts for equipment purchases, and items paid for in cash.
3. Credit Card statements showing all business related transactions for the period. Please mark the items that are business related and their purpose if it is not clear on the statement.

4. Notes relating to special transactions, such as deposits to your bank account from money you contributed or borrowed that was not sales related. You may mark these on your bank statements.

Taxable Income and Withholding

What income is considered as taxable to the owner of an S-Corporation?

1. Your W-2 salary.
2. The net profit from your corporation.
3. Rental income paid to you from the corporation, minus allocated expenses.

How much tax should be withheld from my paycheck?

1. The withholding taxes deducted from your paycheck and paid in monthly or quarterly should be based upon your taxable income. Monthly or quarterly accounting can help to determine the correct amount of tax to withhold, as your business income fluctuates throughout the year.
2. If your monthly income fluctuates throughout the year, you should utilize our monthly accounting services.
3. If your payroll taxes are greater than \$2,500 per quarter, you are required to make monthly payroll tax deposits. Therefore you will need monthly accounting services.

Retirement Plans

Establishing a Simplified Employee Pension account (SEP) can be a big tax saver. You are now allowed to contribute up to 25% of your gross salary into a SEP account. If you are in a 27% tax bracket, this means that you are achieving a *27% return on investment* (through tax savings) for every dollar you contribute to a SEP. Call us for help in establishing a solid plan.

Automobile Expenses

If you own your vehicle and use it for business purposes, you need to keep a mileage log. It may not be as hard as you think. Simply keep a small pocket sized

calendar specifically for this purpose. Every time you go out on business just jot down where you went and how many miles were traveled. This may include visiting clients, or trips to the store, post office, or bank. At year-end, simply add up your business miles. You will also need to know the total mileage placed on the vehicle for the year, so write down the odometer amount on January 1st and on December 31st. If I can do it, so can you!

We will apply the standard mileage rate to your business miles, and deduct from this what your company has deducted for gasoline and repairs. It is therefore acceptable for your company to pay for gasoline and other expenses on your vehicle as it is considered a reimbursement. You may separately deduct expenses for parking and tolls through the company.

If your business owns the vehicle then the actual expenses for gasoline, repairs, maintenance, interest on the loan, and depreciation are deducted on the company's books. Then an amount equal to the fair market value (FMV) of what the vehicle could be leased for in your area is allocated to you as compensation for which taxes must be computed. This is calculated in the 4th quarter and gets reported on your W-2 Form at year-end as taxable income. The FMV amount is allocated based on the percentage of personal use of the vehicle. Therefore, you should keep a log of personal mileage placed on the vehicle, or better yet, use another vehicle for personal use.

If you purchase a new or used vehicle weighing over 6,000 pounds, you may be able to write off the entire amount in the first year, plus operating expenses. Make sure the sticker on the driver's side door has a total vehicle weight of 6,000 lbs or more.

Larry Walker Jr, EA
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