Laura Cross

Peyton, CO

Meet the Trainer

- Team Builder Surge365
- Multiple $1,000 Bonus Earner
- Certified Travel Agent
- Expert Rating Certified TA
- Air Force Veteran
- Full-Time Student

Keep More Commissions with Tax Breaks

Lesson 5.3: Buy vs. Sell & Sell vs. Trade

Strategy 6: Identify Supplies & Equipment Used to Maintain Your Business Car

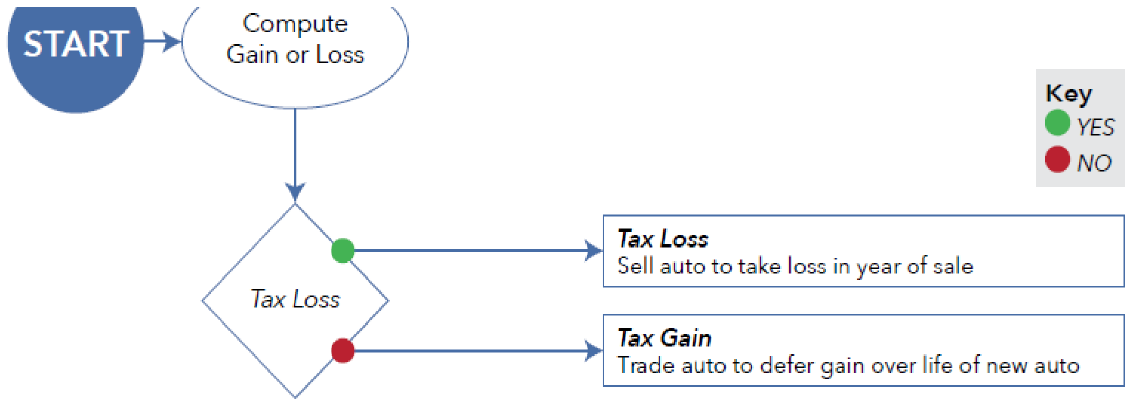
Overview: Take a trip through your garage & basement, or wherever you store tools & cleaning supplies. Make a list of the items you use on your car (battery charger, battery cables & tester, tire pump, vise, buffer, sander, screwdrivers, pliers, etc.). By the time you get to the smaller items you should have found a number of items whose cost you have overlooked.

Depreciate items with cost in excess of $2500: If an items original cost is $2500 or more, it should be capitalized & depreciated. <$2500 for an individual item or small group of tools, it's normal to expense such items in the year of purchase under new De Minimis rules in 2016.

Proof: Since you will be backtracking through past acquisitions, it's likely you won't have receipts. Take photographs which can represent reasonable substitute evidence.

Note: If you get early financial statements, the new De Minimis rule for expensing equipment is $5,000 in 2016.

The reconstruction method requires a reasonable basis for the reconstruction: You may reconstruct records that you don't have (with some exceptions such as having receipts for charitable contributions of $250 or more). The key is there must be a reasonable basis for the reconstruction.



Computing Gain or Loss on Disposition of Auto

Step One: Determine Percentages of Business and Personal Use

	Business Miles	*Personal Miles*	*Total Miles*
Year One	16,000	4,000	20,000
Year Two	13,000	2,000	15,000
Year Three	21,000	4,000	25,000
	50,000	**10,000**	**60,000**
	83.3%	**16.7%**	**100%**

Step Two: Determine Basis

	83.3% Business	*16.7% Personal*
Original cost (or basis)	$8,330	$1,670
Depreciation to date of sale	(5,248)	N/A
Basis	**$3,082**	**$1,670**

Step Three: Compute Gain or Loss

	83.3% Business	*16.7% Personal*
Selling price	$5,831	$1,169
Basis	(3,082)	(1,670)
Gain (Loss)	**$2,749**	**(-$501)**

Strategy 7: Sell Cars That Produce Deductible Losses, but Trade Cars That Produce Taxable Profits

Computing basis after trade: When you trade your old car for a replacement, you take the old depreciated basis & add cash boot to determine the new basis for depreciation.

Example: You give the dealer $10,000 + your old 80% business use car to obtain replacement. Your basis for old car is $2,000 for business & $2,400 for personal. For depreciation purposes, your business basis in the replacement car is $8,000 cash boot + $2,000 from the old business basis for a total of $10,000.

taxbotuniversity

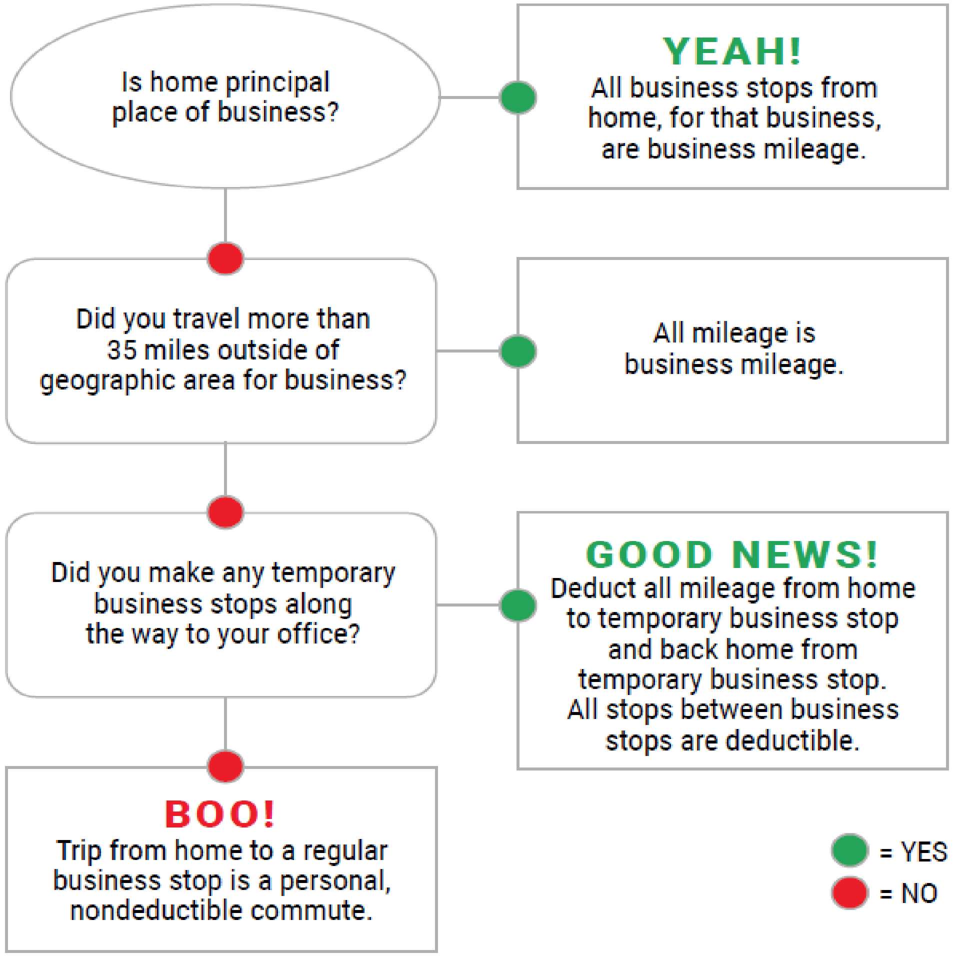
Strategy 8: Sell Cars Which You Claimed IRS Mileage Rate Deductions Because Such Cars Usually Have a High Basis

Do you use IRS rates & trade cars? If so, you could be looking at a tax windfall this year. The low depreciation with IRS rates produces a high basis which you continue to build when you trade cars.

Personal losses are not deductible: If you sell a personal car at a loss, the loss is not deductible.

Personal profits are taxable: If you sell a personal car at a gain, the gain is taxable.

Flow Chart of Business Mileage



This flowchart is for Strategy 9.

Apply the New Rules to Increase Your Deductible Business Miles.

Bottom line – If your primary business is located in your home, all mileage is business mileage.

Strategy 9 continued:

Business use rules: IRS requires you to separate business from personal use. Your business use percentage determines your business automobile deductions. If your corporation provides a car to you or other employees, or if you are self-employed & you provide a car to your employees, the personal use percentage determines additional employee compensation.

Home is principal place of business: If your home is your principal place of business, as defined in Chapter 6, all business stops from your home are business mileage with the exception of a direct commute to the office of your main job. Thus, home based business owners, & some others who use their home as a principal office become winners here!

Residence is not the principal place of business: If you are traveling outside normal geographic area where you normally conduct business, then all round-trip mileage to these business stops constitutes business mileage.

Example: Samantha lives in Grand Rapids, but has a business meeting in Detroit. She may deduct all her mileage to Detroit since it is outside the normal geographic area where she conducts business.

Travel within geographic area: If your home is **not** your principal place of business, your first stop & all business stops thereafter would be business mileage if:

- You went to the first stop for business reasons, and
- Your first stop was a temporary business stop.

*A temporary business stop is one that you don't make regularly & that you will not be visiting for more than one year. Since you are expected to go to the bank & post office for more than a year, going to these places from your home would not be a temporary business stop & would be considered nondeductible mileage.

Example: John goes from his home to meet a prospect for business. He then goes to business stops A,B,C & then to his office. All other stops would be deemed business mileage.

OR: John stops at the bank first and then goes to meet a prospect for business. Mileage to the bank would not be deductible but the trip to the client would be.

Example: Jan, a real estate professional, represents a developer. She is expected to be at the model home selling homes until all homes & sites are sold, which is expected to be within one year or less. She receives a letter to this effect. She may deduct all round-trip mileage to the site.

Note: In the above example, if Jan did not sell all the home sites within one year, all mileage incurred after the one year ends would be deemed commuting.

Warning: Stops at the bank or post office on a weekly or daily basis are not deemed temporary stops. You must perform business services such as meeting clients or prospects, picking up "for sale" signs, or delivery of policies, etc.

Refer to flowchart on earlier slide to help you determine deductible mileage.