

Mileage Log Required for Vehicle Tax Deductions

When it comes to your tax records, there's one record that you really should keep, and it's easily overlooked. It's the mileage log. In an IRS audit, the mileage log often creates the first impression of your tax records. Whether you use the IRS mileage rate method or the actual expense method, you need a written record that proves your business percentage of use.

Various records can be used, but the IRS three-month sampling record is the preferred choice for those who know about it. With this method, you keep a mileage log for three months and then apply that three-month business percentage to either the miles you drove for the year (mileage method), or the expenses you incurred for the year (actual expense method).

The three months must be consecutive and must represent your driving pattern. Otherwise you must keep the mileage log for the entire year.

With respect to keeping your mileage log, technology has made your job a lot easier. You can find very affordable apps that work with your smartphone, such as Mileage Expense Log, Mile IQ, and Trip Log. These apps track where you go and where you stop, and that takes away a big part of the record-keeping hassle. Make sure you also add the business reason for the stops. This takes a few minutes, but it's critical. Don't skip this step.

If you would like an example of what a mileage log should look like, feel free to contact us.

Settle Your IRS Tax Debts for Less than What You Owe

If you owe the IRS a significant sum, the offer in compromise is a powerful tool to resolve unpaid tax debts that you'll never be able to pay in full. To qualify for an offer in compromise, you must demonstrate that you have insufficient assets and/or income to fully pay your tax debts.

The first step is to see if you can qualify to make an offer by calculating your reasonable collection potential using IRS guidelines. We can help you with this calculation. If you potentially qualify and you want to make the offer, you also must be willing to commit to paying the required settlement amount within 24 months, and staying in payment and filing compliance with your taxes for the five years after your offer in compromise is accepted.

Keep in mind that if you have sufficient assets and/or income to pay your tax debts, either all at once or over time, then an offer in compromise based on collectability isn't appropriate for you.

Unpaid Taxes? Goodbye Passport

There's a new law that requires and/or authorizes the State Department to deny, revoke, or limit your passport if you have "seriously delinquent tax debt." You have seriously delinquent tax debt if

- the amount you owe exceeds \$50,000, including interest and penalties;
- the IRS has assessed that amount; and
- the IRS has filed a notice of tax lien, and all administrative remedies have been exhausted or served to you by levy.

The IRS sends you Notice CP508C when it certifies your unpaid taxes as seriously delinquent tax debt to the State Department. If you receive such a notice, please contact us immediately so that we can help you make your tax debt no longer seriously delinquent.

Non-Compete Agreements When Buying a Business

When you buy a business, you probably don't want the former owners competing with you—at least not for a while. To prevent the competition, you will likely enter into a non-compete agreement with the former owners. The agreement has tax implications that you need to consider.

As the buyer, you or your business entity must amortize amounts allocated to non-compete agreements over 15 years, even though the term of the agreement may be much shorter (often three to five years or even less).

In the documents for your purchase/sale transaction, be sure to specify the amounts that you allocated to non-compete payments. Otherwise, the IRS can always call into question your 15-year amortization deductions.

Note that both you and the seller must report the business purchase/sale transaction and its allocations to the IRS on Form 8594 (Asset Acquisition Statement under Section 1060). To help avoid IRS scrutiny, you want both the buyer and the seller reporting the same dollar amounts to the IRS.

Be Smart and Use an LLC Operating Agreement

When you form an LLC, you need to draft articles of organization that comply with the state's LLC act and then file the articles with the appropriate state office. Typically, the required articles are broadly worded and likely don't address members' rights and responsibilities as you would like them addressed.

You should consider taking the extra step of having your lawyers create a written operating agreement. This agreement provides operational rules for running the business and can override or alter the default rules in your state's LLC act to better meet your needs.

With the operating agreement, you

1. increase the LLC's limited liability protection by making it more difficult to "pierce the veil," because the operating agreement makes your LLC appear more business-like;
2. can prevent the unwanted dissolution of the LLC, which distributes the assets to the members with no LLC shield from creditors' claims; and
3. can create the plans you need in case of death, divorce, or withdrawal.

It's also nice to know that you can deduct the legal fees incurred to create the operating agreement. The rules allow you to deduct up to \$5,000 in organization costs immediately and then amortize the balance over 180 months.