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Mid-Year Tax Planning Checklist

All too often, taxpayers wait until after the close of the tax year to worry about their taxes, missing opportunities that could reduce their tax liability or help them financially. Fall is the perfect time for tax planning. The following are some events that can affect your tax return; you may need to take steps to mitigate their impact and thus avoid unpleasant surprises after it is too late to address them.

- ❑ Did you get married, divorced, or become widowed?
- ❑ Did you change jobs or has your spouse started working?
- ❑ Did you have a substantial increase or decrease in income?
- ❑ Did you have a substantial gain from the sale of stocks or bonds?
- ❑ Did you buy or sell a rental?
- ❑ Did you start, acquire, or sell a business?
- ❑ Did you buy or sell a home?
- ❑ Did you retire this year?
- ❑ Are you on track to withdraw the required amount from your IRA (age 70.5 or older)?
- ❑ Did you refinance your home or take out a second home mortgage this year?
- ❑ Were you the beneficiary of an inheritance this year?
- ❑ Did you have a child? Time to start a tax-advantaged savings plan!
- ❑ Are you taking advantage of tax-advantaged retirement savings?
- ❑ Have you made any significant equipment purchases for your business?
- ❑ Are your cash and non-cash charitable contributions adequately documented?
- ❑ Are you keeping up with your estimated tax payments or do they need adjusting?
- ❑ Are you aware of and prepared for the new 3.8% surtax on net investment income?
- ❑ Did you make any unplanned withdrawals from an IRA or pension plan?
- ❑ Have you stayed abreast of every new tax law change?

If you anticipate or have already encountered any of the above events, it may be appropriate to consult with this office, preferably before the event, and definitely before the end of the year.

"Flipping" Homes – A Reviving Trend in Real Estate

Prior to the recent economic downturn, flipping real estate was popular. With mortgage interest rates low and home prices at historical lows, flipping appears to be on the rise again. House flipping is, essentially, purchasing a house or property, improving it, and then selling it (presumably for a profit) in a short period of time. The key is to find a suitable fixer-upper that is priced under market for its location, fix it up, and resell it for more than it cost to buy, hold, fix up and resell it.

If you are contemplating trying your hand at flipping, keep in mind that you will have a silent partner, Uncle Sam, who will be waiting to take his share of any profits in taxes. (And most likely, Sam's cousin in your state capitol will also expect a share, too.) Taxes play a significant role in the overall transaction, and tax treatment can be quite different depending upon whether you are a dealer, an investor or a homeowner. The following is the tax treatment for each in years after 2012.

- *Dealer in Real Estate* – Gains received by a non-corporate taxpayer from business operations as a real estate dealer are taxed as ordinary income (10% to 39.6%), and in addition, individual sole proprietors are subject to self-employment tax of 15.3% of their net profit (the equivalent of the FICA taxes for a self-employed person). Higher-income sole proprietors are also subject to an additional 0.9% Medicare surtax on their earnings. Thus, a dealer will generally pay significantly more tax on the profit than an investor. On the other hand, if the flip results in a loss, the dealer would be able to deduct the entire loss in the year of sale, which would generally reduce his tax at the same rates.
- *Investor* – Gains as an investor are subject to capital gains rates (maximum of 20%) if the property is held for more than a year (long-term). If held short-term, ordinary income rates (10% to 39.6%) will apply. An investor is not subject to the self-employment tax, but could be subject to the 3.8% surtax on net investment income for higher income taxpayers. A downside for the investor who has a loss from the transaction is that, after combining all long- and short-term capital gains and losses for the year, his deductible loss is limited to $3,000, with carryover to the next year of any excess capital loss. The rules get a bit more complicated if the investor rents out the property while trying to sell it, and are beyond the scope of this article.
- *Homeowner* – If the individual occupies the property as his primary residence while it is being fixed up, he would be treated as an investor with three major differences: (1) if he owns and occupies the property for two years and has not used a homeowner gain exclusion in the two years prior to closing the sale, he can exclude gain of up to $250,000 ($500,000 for a married couple), (2) if the transaction results in a loss, he will not be able to deduct the loss or even use it to offset gains from other sales, and (3) some fix-up costs may be deemed to be repairs rather than improvements, and repairs on one's primary residence are not deductible nor includible as part of the cost basis of the home.

Being a homeowner is easily identifiable, but distinguishing between a dealer and an investor is not clearly defined by the tax code. A real estate dealer is a person who buys and sells real property with a view to the trading profits to be derived and whose operations are so extensive as to constitute a separate business. A person acquiring property strictly for investment, though disposing of investment assets at intermittent intervals, is generally not regularly engaged in dealing in real estate.

This issue has been debated in the tax courts frequently, and both the IRS and the courts have taken the following into consideration:

- whether the individual is already a dealer in real estate, such as a real estate sales person or broker;
- the number and frequency of sales (flips);
- whether the individual is more committed to another profession as opposed to fixing and selling real estate; and
- how much personal time is spent making improvements to the "flips" as opposed to another profession or employment.

The distinction between a dealer and an investor is truly based on the facts and circumstances of each case. Clearly, an individual who is not already in the real estate profession and flips one house is not a dealer. But one who flips five or more houses and/or property and has substantial profits would probably be considered a dealer. Everything in between becomes various shades of grey and the facts and circumstances of each case must be considered.

If you have additional questions or need assistance with your specific situation, please give this office a call.

Tax Tips for the Well-traveled Businessperson

As you probably already know, food and lodging expenses can be deducted when you are away from home for business purposes. This may be particularly beneficial to self-employed individuals who travel extensively. Like everything in the tax law, there are certain rules to follow. Travel, meal, and entertainment expenses must be "ordinary" and "necessary" in carrying on your trade or business and must be "directly related to" or "associated with" the active conduct of that business.

Lodging - Travel expenses are deductible only if the individuals are away from their "tax home" for more than one business day. That usually means their regular place of business.

The IRS requires that lodging expenses be substantiated by records or other evidence. Some travel expenses of less than $75 can be documented by records including diaries, logs, and expense reports, but lodging documentation generally needs to be verified with actual receipts. The lodging records must include the amount, date, and place. In addition, the reason for the trip must also be included somewhere in the documentation for the trip expenses. If meal expenses are included in the hotel bill, they must be separated out and included with meal expenses, which have limitations.

Meal Expenses - Meal expenses are deductible only if the trip is overnight or long enough that there is a need to stop for sleep or rest to properly perform one's duties. The amount of the meal expenses must be substantiated by receipts unless the expense is less than $75, in which case it can be documented by records including diaries, logs, and expense reports. Meal expenses are deductible up to an amount not considered "lavish" (i.e., reasonable under the circumstances).

When traveling, it is not uncommon to share a meal with others and pick up the tab. Your meal is always deductible, but the cost of the other individuals sharing the meal are only deducible if actual business discussions were conducted during the meal and you can show that there was anticipation of a specific business benefit from the meal (even if the benefit does not materialize). Goodwill-generating quiet business meals "in an atmosphere conducive to business" are not deductible.

> ***Example** - **Away-From-Home Meals -** Margaret's employer sent her on a five-day business trip to Minneapolis to make a sales presentation to MM&M, Inc. Margaret received no reimbursement for her meals during the trip. Margaret ate alone on the first three days away, at a total cost of $180. On the fourth night, she met a friend for dinner and paid the tab of $120. The next day, she invited Marty, a purchase representative for MM&M, Inc., to dinner. Their dinner followed a full day of discussion about MM&M's latest order from Margaret. Margaret paid for dinner that night too, for a total of $150. Margaret's deductible meal expense is $180 for the trip (50% x ($180 [meals alone] + $60 [her portion of dinner with her friend] + $120 [meal with Marty]).*

Meal expense substantiation includes the following:

- the cost of the meal;
- date, time, and place;
- business purpose; and
- names of guests and business relationship.

Instead of keeping records of the actual cost of meal expenses, a "standard meal allowance" ranging from $46 to $71 can generally be used. The standard meal allowance depends on the locality and is set by the U.S. General Services Agency (www.gsa.gov). It is also known as the federal M&IE (meals and incidental expenses) rate.

The deduction for unreimbursed business meals, regardless of the record-keeping method, is limited to 50% of the cost that would otherwise be deductible.

Traveling Companion – Sometimes a business traveler will take a companion, such as a spouse or friend, on a business trip for company. When it comes to deducting a companion's travel costs for business, the rules are very restrictive. Generally, you cannot deduct the companion's travel costs unless the companion is a bona fide employee of the business. This requirement prevents deductibility in most cases.

Even if your companion is an employee, his or her presence must be for a bona fide business purpose. Generally, a companion's presence must be "necessary" to meet the bona fide purpose test, and just being "helpful" does not meet the requirement. Being there for goodwill purposes such as serving as a hostess is generally insufficient to satisfy a business purpose. An exception to that rule would be if your companion's presence is necessary to care for a serious medical condition that you have.

If your companion's presence does meet the bona fide business purpose rule, then the normal deductions for business travel away from home can be claimed. These include the costs of transportation, meals, and lodging, and incidental costs such as dry cleaning, phone calls, etc.

But all is not lost if your companion does not meet the qualifications. You may still be able to deduct a substantial portion of the trip's costs. This is because the rules don't require you to allocate 50% of your travel costs to your companion. You need only allocate to him or her any additional costs that are incurred. For example, the single rate for a room is not so different than the cost for double occupancy. If you were driving, no allocation would be required because the cost would be fully deductible even if your companion did not accompany you. If you used public transportation, only your cost would be deductible. Any meals and separate costs incurred by your companion would not be deductible.

Travel expenses and documentation can be tricky. If you have any questions that may apply to your specific circumstances, please give this office a call.

Turning 70½ This Year?

If you are turning 70½ this year, you may face a number of special tax issues. Not addressing these issues properly could result in significant penalties and filing hassles.

- **Traditional IRA Contributions** – You cannot make a traditional IRA contribution in the year you reach the age of 70½. Contributions made in the year you turn 70½ (and later years) are treated as excess contributions and are subject to a nondeductible 6% excise tax penalty for every year in which the excess contribution remains in the account. The penalty, which cannot exceed the value of the IRA account, is calculated on the excess contributed and on any interest it may have earned.

You can avoid the penalty by removing the excess and the interest earned on the excess from the IRA prior to April 15 of the subsequent year and including the interest earned on the excess in your taxable income.

Even though you can no longer make contributions to a traditional IRA in the year you reach age 70½, you can continue to make contributions to a Roth IRA, not to exceed the annual IRA contribution limits, provided you still have earned income, such as wages or self-employment income, at least equal to the amount of the contribution.

- **Required Minimum Distributions (RMD)** – You must begin taking required minimum distributions from your qualified retirement plans and IRA accounts in the year you turn 70½. The distribution for the year in which you turned 70½ can be delayed to the subsequent year without penalty, if the distribution is made before April 1 of the subsequent year. That means in the subsequent year two distributions must be made, the delayed distribution and the distribution for that year.

- **Still Working Exception** – If you participate in a qualified employer plan, generally you need to start taking required minimum distributions (RMDs) by April 1 of the year following the year you turn 70½. This is your required beginning date (RBD) for retirement distributions. However, if your plan includes the "still working exception," your RBD is postponed to April 1 of the year following the year you retire.

Example: You reached age 70½ in 2011, but chose to continue working and did not retire until June of 2013. Provided your employer's plan includes the option, you can make the "still working election" and delay your RBD until no later than April 1, 2014.

Caution: This exception does not apply to an employee who owns more than 5% of the company. There is no "still working exception" for IRAs, Simple IRAs, or SEP IRAs.

- **Excess Accumulation Penalty** – When you fail to take a RMD, you are subject to a draconian penalty called the excess accumulation penalty. This penalty is a 50% excise tax of the amount (RMD) that should have been distributed for the year.

Example: Your RMD for the year is $35,000 but you only take $10,000. Your excess accumulation penalty for failing to take the full amount of the distribution for the year would be $12,500 (50% of $25,000).

The IRS will generally wave the penalty for non-willful failures to take your RMD, provided you have a valid excuse and the under-distribution is corrected.

As you can see, turning 70½ can complicate your tax situation. If you need assistance with any of the issues discussed here, or need assistance computing your RMD for the year, please give this office a call.

Documenting Charitable Contributions

A frequently asked question is, "What records are required for charitable contributions?" In recent years, Congress has passed stringent recordkeeping rules for charitable contributions as well as harsh penalties for understating taxable income. The following is a summary of the recordkeeping rules currently in effect for a variety of contribution types. This list is not all-inclusive, so if you don't see rules that apply to your particular situation, please give our office a call.

Cash Contributions — Cash contributions include those paid by cash, check, electronic funds transfer, or credit card (see special requirements for payroll cash contributions). You cannot deduct a cash contribution, regardless of the amount, unless you can document the contribution in one of the following ways.

1. A bank record that shows the name of the qualified organization, the date of the contribution, and the amount of the contribution. Bank records may include:
    a. A canceled check,
    b. A bank or credit union statement, or
    c. A credit card statement.
2. A receipt (or a letter or other written communication) from the qualified organization showing the name of the organization, the date of the contribution, and the amount of the contribution.

As a result, if you drop cash into a church collection plate each week at a worship service, you cannot legally deduct that donation on your tax return. The same goes for dropping a cash donation into the Christmas kettle. Instead, you should write a check to the charitable organization of your choice and put the check into the collection plate, or make other arrangements with the organization for giving your tax-deductible contribution to ensure that a bank record, receipt, or letter is provided.

Payroll Contributions — For contributions made by payroll deduction, you must keep:

1. A pay stub, W-2 form, or other document provided by your employer that shows the date and amount of the contribution, and
2. A pledge card or other document prepared by or for the organization to which you are donating that shows the name of this organization. If the employer withheld $250 or more from a single paycheck, the pledge card or other document must state that the organization does not provide goods or services in return for any contribution made to it by payroll deduction. A single pledge card may be kept for all contributions made by payroll deduction, regardless of the amount, as long as it contains all of the required information.

If the pay stub, W-2 form, pledge card, or other document does **not** show the date of the contribution, you must also have another document that does show the date of the contribution. If the pay stub, W-2 form, pledge card, or other document **does** show the date of the contribution, you need not keep any other records except those described in (A) and (B).

Non-Cash Contributions

Non-cash contributions include the donation of property, such as used clothing or furniture, to a qualified charitable organization.

<u>Deductions of Less than $250</u> **—** If you claim a non-cash contribution of less than $250, you must get and keep a receipt from the charitable organization showing:

1. The name of the charitable organization,
2. The date and location of the charitable contribution, and
3. A reasonably detailed description of the property that was donated.

You are not required to have a receipt if it is impractical to get one (for example, if the property was left at a charity's unattended drop site). However, you still must document the contribution as described above.

<u>Deductions of at Least $250 but Not More than $500</u> **—** If you claim a deduction of at least $250 but not more than $500 for a non-cash charitable contribution, you must have and keep an acknowledgment of the contribution from the qualified organization. If the contributions were made in more than one donation of $250 or more, you must have either a separate acknowledgment for each or one acknowledgment that shows the total contribution. The acknowledgment(s) must be written and should include the following:

1. The name of the charitable organization,
2. The date and location of the charitable contribution,
3. A reasonably detailed description (but not necessarily the value) of any property contributed,
4. Whether or not the qualified organization gave you any goods or services as a result of the contribution (other than certain token items and membership benefits), and
5. If goods and/or services were provided to you, the acknowledgement must include a description and good faith estimate of the value of those goods or services. If the only benefit received was an intangible religious benefit (such as admission to a religious ceremony) that generally is not sold in a commercial transaction outside the donative context, the acknowledgment must say so and does not need to describe or estimate the value of the benefit.

Deductions of over $500 but Not over $5,000 — If you claim a deduction of over $500 but not over $5,000 for a non-cash charitable contribution, you must get and keep the same acknowledgement and written records as for contributions of at least $250 but not more than $500 (as described above).

In addition, the records must also include:

1. How the property was obtained (for example, by purchase, gift, bequest, inheritance, or exchange).
2. The approximate date the property was obtained or, if you created, produced, or manufactured the item, the approximate date the property was substantially completed.
3. The cost or other basis, and any adjustments to the basis, of property held for less than 12 months and, if available, the cost or other basis of property held for 12 months or more. This requirement, however, does not apply to publicly-traded securities. If you are not able to provide

information on either the date the property was obtained or the cost basis of the property, and there is reasonable cause for not being able to provide this information, a statement of explanation must be attached to the return.

Deductions over $5,000 — Because of special rules related to contributions over $5,000, please call this office for documentation requirements of the particular contribution **before** making the contribution.

Out-of-Pocket Expenses — If you render services to a qualified organization and have unreimbursed out-of-pocket expenses related to those services, the following three rules apply.

1. You must have adequate records to prove the amount of the expenses.
2. You must get an acknowledgment from the qualified organization that contains:
    a. A description of the services provided,
    b. A statement of whether or not the organization provided you with any goods or services to reimburse you for the expenses incurred,
    c. A description and good faith estimate of the value of any goods or services (other than intangible religious benefits) provided as reimbursement, and
    d. A statement that the only benefit received was an intangible religious benefit, if that was the case. The acknowledgment does not need to describe or estimate the value of an intangible religious benefit.
3. The acknowledgement must be obtained before the earlier of the following:
    a. The date of filing the return for the year in which the contribution was made, or
    b. The due date, including extensions, for the return.

Car Expenses — When you claim expenses directly related to the use of your car to provide services to a qualified organization, you must keep reliable written records. Whether the records are considered reliable depends on the facts and circumstances. Generally, your records will likely be considered reliable if made regularly and/or near the time the expense was incurred. The records must show the name of the organization being served and the date each time the car was used for a charitable purpose. If the standard mileage rate of 14 cents per mile is used, the records must show the miles driven for the charitable purpose.

If you deduct actual expenses, the records must show the costs of operating the car that are directly related to a charitable purpose. General repairs and maintenance expenses, depreciation, registration fees, or the costs of tires or insurance cannot be deducted.

Vehicle Donations — When the deduction claimed for a donated vehicle exceeds $500, IRS Form 1098-C (or another statement containing the same information as Form 1098-C) furnished by the charitable organization must be attached to your filed tax return. Without the 1098-C or other statement, no deduction is allowed. When the charity sells the vehicle, Form 1098-C (or other statement) must be obtained within 30 days of the sale of the vehicle.

CAUTION: With the exception of vehicle contributions, charitable gift acknowledgements must be obtained before the earlier of the following:

1. The date on which your return was filed for the year in which you made the contribution, or
2. The due date, including extensions, for filing the return.

If you have questions regarding charitable recordkeeping or what is deductible as a charitable contribution, please give our office a call.

Installment Sale – a Useful Tool to Minimize Taxes

Two new laws that take effect in 2013 can significantly impact the taxes owed from the sale of property that results in capital gains. They include:

Higher Capital Gains Rates – Starting in 2013, capital gains can be taxed at 0%, 15%, or 20% depending upon the taxpayer's regular tax bracket for the year. Therefore, if your regular tax bracket is 15% or less, the capital gains rate is zero. If your regular tax bracket is 25% to 35%, then the top capital gains rate is 15%. However, if your regular tax bracket is 39.6%, the capital gains rate is 20%.

Unearned Income Medicare Contribution Tax – This new tax is sometimes referred to as the "surtax on net investment income," which more aptly describes this 3.8% tax on net investment income. Capital gains (other than those derived from a trade or business) are considered investment income for purposes of this tax. For individuals, the surtax is 3.8% of the lesser of (1) the taxpayer's net investment income, or (2) the excess of the taxpayer's modified adjusted gross income (MAGI) over the threshold amount for his or her filing status. The threshold amounts are:

- $125,000 for married taxpayers filing separately.
- $200,000 for taxpayers filing as single or head of household.
- $250,000 for married taxpayers filing jointly or as a surviving spouse.

Selling a property one has owned for a long period of time will frequently result in a large capital gain, and reporting all of the gain in one year will generally push the taxpayer's income within the reach of these two new taxes.

This is where an installment sale could fend off these additional taxes by spreading the income over multiple years.

Here is how it works. If you sell your property for a reasonable down payment and carry the note on the property yourself, you only pay income taxes on the portion of the down payment (and any other principal payments received in the year of sale) that represents taxable gain. You can then collect interest on the note balance at rates near what a bank charges. To qualify as an installment sale, at least one payment must be received after the year in which the sale occurs.

Example: *You own a lot for which you originally paid $10,000. You paid it off some time ago, leaving you with no outstanding mortgage on the lot. You sell the property for $300,000 with 20% down and* *carry a $240,000 first trust deed at 3% interest using the installment sale method. No additional payment is received in the year of sale. The sales costs are $9,000.*

Computation of Gain

Sale Price	$300,000
Cost	< $10,000>
Sales costs	< $9,000>
Net Profit	$281,000

Profit % = $281,000/$300,000 = 93.67%

Of your $60,000 down payment, $9,000 went to pay the selling costs, leaving you with $51,000 cash. The 20% down payment is 93.67% taxable, making $56,202 ($60,000 x .9367) taxable the first year. The amount of principal received and reported each subsequent year will be based upon the terms of the installment agreement. In addition, the interest payments on the note are taxable and also subject to the investment surtax.

Here are some additional considerations when contemplating an installment sale.

<u>Existing mortgages</u> – If the property you are considering selling is currently mortgaged, that mortgage would need to be paid off during the sale. Even if you do not have the financial resources available to pay off the existing loan, there might be ways to work out an installment sale by taking a secondary lending position or wrapping the existing loan into the new loan.

<u>Tying up your funds</u> – Tying up your funds into a mortgage may not fit your long-term financial plans, even though you might receive a higher return on your investment and potentially avoid a higher tax rate and the net investment income surtax. Shorter periods can be obtained by establishing a note due date that is shorter than the amortization period. For example, the note may be amortized over 30 years, which produces a lower payment for the buyer but becomes due and payable in five years. However, a large lump sum payment at the end of the 5 years could cause the higher tax rate and surtax to apply to the seller in that year – so close attention to the tax consequences needs to be considered in structuring the installment agreement.

<u>Early payoff of the note</u> – The buyer of your property may decide to pay off the installment note early, or sell the property, in which case your installment plan would be defeated and the balance of the taxable portion would be taxable in the year the note is paid off early or the property is sold, unless the new buyer assumes the note.

<u>Tax law changes</u> – Income from an installment sale is taxable under the laws in effect when the installment payments are received. If the tax laws are changed, the tax on the installment income could increase or decrease. Based on recent history, it would probably increase.

Installment sales do not always work in all situations. To determine if an installment sale will fit your particular needs and set of circumstances, please contact this office for assistance.

Receiving Inventory With or Without Bills in QuickBooks

When your goods come rolling in, be sure to document them correctly.

You're probably happy to see couriers delivering inventory items you've ordered since it means you can ship to customers, but recording the new stock means yet another repetitive task.

QuickBooks' tools can help with this, but you need to be sure you're using the right forms. There are two different ones that you'll use, depending on whether or not you've received a bill.

Bill in Hand

Either way, you'll get started by opening the **Vendors menu** (or clicking the arrow next to Receive Inventory on the home page). If you do have a bill, select **Receive Items and Enter Bill** (**Receive Inventory with Bill** on the home page). The **Enter Bills** screen opens; select your vendor from the drop-down list. If you had entered a purchase order, you'll see something like this:

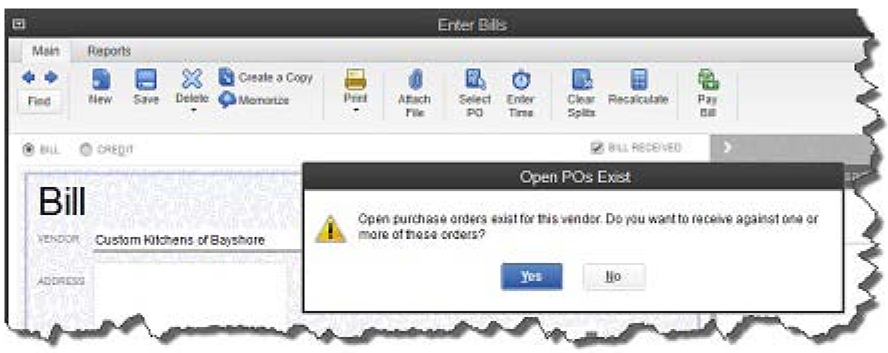

Figure 1: If any purchase orders exist for that vendor in QuickBooks, you'll see this message.

Click **Yes**. The **Open Purchase Orders** window will open displaying a list. Select the PO(s) for the items received by placing a checkmark in front of it/them and click **OK.**

*Tip: If you accidentally click **No**, the vendor's information will be filled in on the **Enter Bills** screen, and you can click the **Select PO** icon in the toolbar.*

Now the PO item information has been entered in the window. Check the form for accuracy, then save it.

Of course, if there was no purchase order, you'll enter the information about the items you received (descriptions, prices, etc.) in the **Enter Bills** screen.

Delayed Billing

If you receive items without a bill, you still need to document the shipment. Open the **Vendors** menu and select **Receive Items** (or click the arrow next to the **Receive Inventory** icon on the home page and select **Receive Inventory without Bill**).

The **Create Item Receipts** window opens. Select the vendor by clicking the down arrow next to that field. If a message about existing purchase orders for that vendor appears, click **Yes** or **No**, and either select the appropriate POs or enter the information about what you received.

If the items were already earmarked for a specific customer on the purchase order, the **Customer** column will have an entry in it, and there will be a check mark in the **Billable** column. If there was no purchase order and you're entering the information, you can complete those two fields manually.

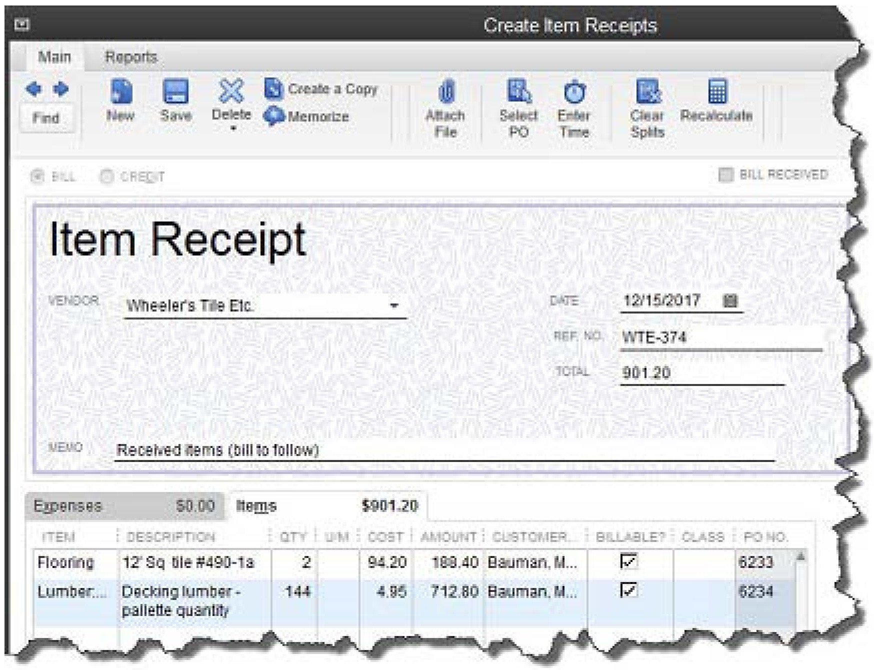

Figure 2: If a purchase order was already assigned to a customer and is billable, that information should appear in this window.

Enter a reference number if you'd like. The **Memo** field should already be filled in with **Received items (bill to follow)**, and the **Bill Received** box should not be checked.

Warning: Be sure that the ***Items*** *tab is highlighted when you're recording physical inventory. If there are related costs like freight charges or sales tax, click the* ***Expenses*** *tab and enter them there.*

Paying Up

When the bill comes in for merchandise that you've already recorded on an Item Receipt, you'll use this procedure to pay it:

- Click **Vendors | Enter Bill for Received Items**, which opens the **Select Item Receipt** window.
- Select the vendor, then the correct **Item Receipt**.

Note: If the bill corresponds to more than one Item Receipt, you'll need to convert each into a bill separately. You can create a new bill if some items received were not accounted for on Item Receipts.

- Click the box next to **Use the item receipt date for the bill date** if you want to match it to the inventory availability date.

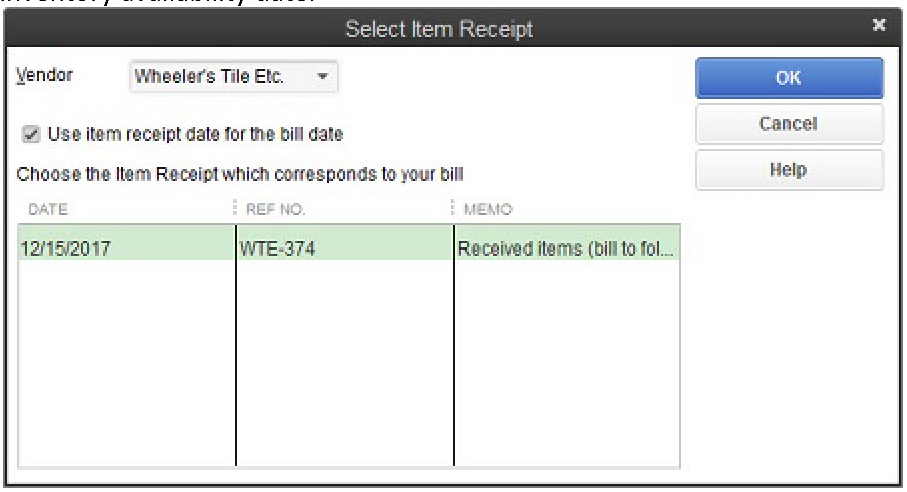

Figure 3: You'll select purchase orders that you want to create bills for in this window.

- Click **OK**. The **Enter Bills** screen opens, which can be processed like you'd handle any bill.

Though it may seem like extra work, this last procedure is important, since it prevents you from recording the same inventory items twice.

It's easy to get tangled up on these procedures. We hope you'll consult us when you begin implementing inventory management in QuickBooks, or when you're taking on a new task there. It's a lot easier to prevent errors than to go back and fix them.