

SMALL BUSINESS GUIDE

RUNNING YOUR OWN BUSINESS

WHAT YOU NEED TO KNOW

The best thing that you can do for yourself and your business is to
KEEP GOOD RECORDS and to KNOW YOUR DEDUCTIONS

Knowledge is the key to success in your business!

Compliments of:

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RUNNING YOUR OWN BUSINESS - WHAT YOU NEED TO KNOW

1. WHAT TO DO FIRST:

Get a DBA (Doing Business As). This is registering your business name with your county clerk's office so that no one else can use your business name.

Apply for a Federal ID Number by using form SS-4, if necessary. You will need a Federal ID number if you are any other entity besides a Sole Proprietor or if you have employees. *I can help you prepare this form.*

Apply for a Sales Tax Number with the State of Michigan, using form 518, if necessary. You will need a sales tax number if you are selling products and collecting sales tax. *I can help you prepare this form*

Open a separate bank account. It is very important to keep your business and personal expenses separate. This is for your protection.

If you run your business from your home, set up an office area in your home. Have a place that is comfortable and efficient. Set up files and be organized.

Consult with your income tax preparer and find out how your new business will affect your personal income tax return. For instance, you may need to set up estimated payments to take care of self-employment taxes and/or business income taxes?

2. BOOKKEEPING:

Set up a good bookkeeping system. Ask for help from a bookkeeper or tax preparer so you know, *in Advance* what you need to keep track of and how to keep track of it.

There are many different bookkeeping methods. Check them out and choose the one that best suits your needs.

- 1) By hand, using worksheets
- 2) By Computer, build your own spreadsheets
- 3) Use a bookkeeping program. (I highly recommend a program called QuickBooks)

I suggest that you do your bookkeeping task at least once per month. Would you rather spend minutes *or* hours and days getting your records in order? It could be very important to be able to produce a Profit and Loss Statement or a Financial Statement quickly and this can't be accomplished if you are behind in your bookkeeping.

On the following pages you will find a list of the items that are income and expenses for your business

Keep in mind that this is not an all-inclusive list
Things may come up that are not listed and not all items listed will apply to your business.

If you have any questions about whether a certain deduction applies to your business, you should contact your tax preparer or bookkeeper.

INCOME

WHAT IS INCOME TO YOU?

Depending on what type of business you are in, income can come in many forms. Some forms of income are reported to you on a 1099-misc form at the end of the year. Others, you must keep record of and report on your own.

SALES - money received from the sale of your products or services. (Cash, Check or Charge)

COMMISSIONS OR BONUSES - money received from a company or person that you are doing business with.

AWARDS OR GIFTS - non-cash items such as trips and prizes are considered income to you at their fair market value.

SALE OR TRADE OF EQUIPMENT OR ASSETS - if you sell or trade-in business assets or equipment, this is a form of income or capital gains. Keep track of date sold or trade and the amount or trade-in value received.

MISCELLANEOUS INCOME - selling products or literature to other associates in the same line of work. This is usually called Wholesale Sales. You shouldn't charge sales tax on these sales.

EXPENSES

WHAT EXPENSES CAN YOU DEDUCT?

There may be some expenses you might incur before you actually start your business. These are called *Start-Up Costs*. Your tax preparer will need a breakdown of these expenses because some can be totally written off in the year your business starts and

some will be spread out over a period of years. (You may expense up to \$5,000 in start-up costs in the first year)

START UP COSTS INCLUDE -

A) Don't forget the initial purchase of products for resale or your start-up demo kit expense.

B) Cost of setting up your office or building. (Equipment like desk, file cabinets, phones, computer, fax machine, building improvements, etc.) You can use the cost of the above mentioned items that were purchased in previous years, but put into service for your business in a later year.

C) Supplies to get you started. (Record books, paper, pens, pencils, calculator, date book, briefcase, etc.)

D) Charges for long distance phone calls regarding your business.

E) Mileage - keep track of total miles driven prior to starting your business; miles to meetings, interviews, getting supplies, setting up bank account, prospecting customers, meeting with tax preparer and bookkeeper.

AUTO EXPENSES - There are two methods of determining auto expenses, the Mileage Method and Actual Expenses Method. **No matter which method you use, you must keep a mileage log.** A mileage log must include your vehicle mileage for all business activities, the date and where you went. If your vehicle is not 100% business, then you must also know the total miles put on that vehicle for the year. You can have more than one vehicle that you put business miles on. You may choose the method that is the best for you each year.

A) Mileage Method - the IRS assigns a "cents per mile" business deduction. This amount changes every year. You then multiply your business miles by the "cents per mile" rate. (2017 = 53.5 cents per business mile)

B) Actual Expenses Method - A business use percentage is established by comparing business miles put on the vehicle to all miles put on the vehicle for each year. Your auto deduction is the business use percentage times the actual expenses for the vehicle. (gas, oil, repairs, license plates, insurance, car washes, lease payments, other general maintenance) You will also be able to expense the cost of the vehicle through depreciation. If your vehicle is 100% business then you would use 100% of all vehicle expenses.

What is a Business Mile? If you run your business from your home, have clients regularly visit your office or you store inventory, tools and/or equipment at your home, then total miles to and from your 'Business Related Activities' are considered business

miles. If you run your business from your home but most of your business is conducted away from your office or your office is away from your home, then your business miles do not include commuting. Commuting miles are the miles to your first business activity of the day and from the last business activity of the day.

Business Related Activities are anything that is ordinary and necessary for your kind of business. Like appointments or meetings with clients/customers, prospecting clients/customers, banking, getting supplies or inventory, attending meetings and seminars, doing shows, entertaining clients/customers or associates, attending seminars or trade shows, tax or bookkeeping appointments, classes or continuing education, even price comparison or prospective shopping, etc.

ADVERTISING - (Also known as promotional expenses) Newspaper or Yellow Book ads, flyers, business cards, monogrammed clothing, etc. Donations of money or gifts on behalf of your business, such as sponsoring little league or business gift certificates.

BANK CHARGES - Expenses on a business bank account. (Fees, Charges, New Checks, Credit Card Processing Fees, etc.)

BUSINESS FEES – any special fees related to your type of business that you must pay to conduct your business or belong to your association.

CASUALTY DAMAGES - Damages to merchandise, products, office, fixtures, equipment, and etc. that are caused by theft or an act of god (flood, fire, tornado). An adjustment must be made if you are reimbursed by insurance coverage. Any costs related to damages that you cause to a customers property.

CASUAL LABOR - Money paid out to someone for services rendered in the process of running your business. If you pay any one person more than \$600.00 in a calendar year then you must report this to them and the IRS on form 1099-Misc. It is a good idea to get these peoples social security numbers or federal ID numbers and addresses as soon as they start working for you. (Use form W-9) Consider payments to family members here.

CONVENTIONS, MEETINGS & SEMINARS - Your deduction is the cost to attend. This also includes supplies, books, tapes, etc. Meals must be kept track of separately. If your family attends with you, I caution you to use expenses for you and only use family members expenses if they are a part of your business.

DUES OR PUBLICATIONS - expenses for business purposes only.

EQUIPMENT – the cost of purchasing assets/equipment for use in your business. Include in the cost any sales tax and labor or setup fees. Business assets/equipment

are vehicles, computers, computer equipment, furniture, fixtures, tools, machinery, buildings and major improvements to assets. Assets/equipment valued over \$300.00 with a useful life of at least 3 years must be expensed through a depreciation method. Depreciation is a deduction on a business asset/equipment that takes the cost of the asset and spreads the deduction out over several years. Your tax preparer will help you choose the right method. Be prepared to give your tax preparer a breakdown of each item, date purchased, cost and how it was paid for.

EXHIBITS AND DISPLAYS - any expenses involved in doing this, such as display costs and booth or space rental at a fair or show.

GIFTS - cost of gifts for customers, employees and giveaways. Customer gifts are limited to \$25 for each customer per year.

INSURANCE - expenses for insurance on your business, its assets, or liability insurance. You only use vehicle insurance cost if you are using the actual expense method. Health Insurance is deductible if you pay for it yourself, not through an employer.

INTEREST - paid on business indebtedness. This is business loans, business credit cards, vehicle loans, etc. Special notes! Interest on your vehicle loan can be used no matter which auto expense method you use. You will normally need to call your creditor to get the annual interest on vehicle loans. Credit card interest can only be used if the credit card has only business related charges on it.

INTERNET - your cost of internet service if you use it for your business.

LEGAL & PROFESSIONAL FEES - fees to bookkeepers, tax preparers, lawyers, counselors, investment advisers, etc for their professional services for your business.

LICENSE FEES - the cost of getting and keeping the licenses necessary to run your business. Record vehicle license plate fees under your auto deduction.

MEALS & ENTERTAINMENT - expenses for having meetings, prospecting customers, special parties, shows, outings, etc. Keep track the meals or food portion of these expenses separately because you are only allowed to deduct a percentage (50% for 2010 and 2011) of meals as a business deduction.

OFFICE EXPENSES - office supplies, small office equipment, stamps, postage, freight, books, magazines, pens, pencils, files, envelopes, etc.

PRODUCT PURCHASES - for resale or demonstration purposes. Items purchased for personal use are not a business deduction. You must keep track of personal use totals. Businesses with large inventories may not get to deduct the cost of purchases

until the item is sold. (This is called Inventory)

RENT - rent payments for business property, building, equipment, meeting room rental, etc. This may be called Lease expense.

REPAIRS & MAINTENANCE - on business assets, office, etc. List vehicle repairs under your auto deduction.

SOFTWARE – the cost of software programs used in your business should be totaled separate from other expenses. Sometimes they have to be depreciated.

SUPPLIES - (other than office supplies), the supplies that help you run your business, such as, business materials, sales aids, cleaning supplies, break room supplies, etc.

TAXES - Business related taxes. such as, employee payroll taxes, personal property taxes on business assets, property taxes on business land, single business taxes, etc. Your personal taxes are not a business deduction, this includes self-employment tax.

TOOLS – the cost of the tools of your trade.

TRAVEL - cost of attending business meetings, seminars, business functions and prospecting customers. This includes airfare, train, rental car and/or taxi costs. If you are out of town overnight then you can include motel and meals. NOTE: if your family goes with you on a business function, only use their expenses if they are part of your business.

TELEPHONE - expenses include 100% of business phone lines in your home office, cell phones, pagers, answering services and only the ‘business related long distance calls’ on your personal line. If you have only one phone line coming into your home, it is deemed personal by the IRS.

WAGES - cost of payroll if you have employees.

WEBSITE - expense the cost of designing and maintaining a website.

OFFICE IN THE HOME DEDUCTION - you are allowed to take a percentage of your household expenses as a business deduction if you maintain a portion of your home that is used exclusively for business and you meet the office in the home requirements. Requirements are: This is the main place that you conduct or manage your business from, this includes storing of inventory or this is the place where you meet clients or you have a separate building at your home where you conduct business from. The business percentage is figured by comparing the square footage of your business space to the square footage of your home. (or the # of rooms used

for business divided by the # of rooms in your home) Household expenses include: mortgage interest, property taxes, homeowners insurance, lights, heat, water bill, home repairs, trash pickup, etc.

Please Note! *this deduction can only be used to reduce a business profit.* But if your business is showing a loss, you do not lose this deduction, it can be carried forward and used to offset a profit in a future year.

MISCELLANEOUS INFORMATION

Child Care is *NOT* a business expense for a self-employed person. If your business shows a profit, then you could be eligible for a child care credit on a personal level.

Don't confuse personal enhancements with being a business deduction. Things such as purchasing nice clothing, hair and nail appointments, gym memberships to look nice and etc. are considered personal expenses and are *NOT* tax deductible.

3. HOW DOES PROFIT OR LOSS AFFECT YOUR PERSONAL TAX RETURN?

Your taxable income is the profit. This is your bottom line figure, after all expenses are deducted.

A ***profit*** will affect your personal tax return in several ways. All business profits are added to all other forms of personal income and is taxed at your regular tax bracket rate. Profits of over \$400.00 are also subject to self-employment tax (rate is 15.3%).

Example: On a \$10,000.00 profit you would owe the following taxes:

1) Self Employment Taxes @ 15.3% = \$1,530.00

2) Federal Income Tax =

\$1,500.00 @ the 15% tax rate

\$2,500.00 @ the 25% tax rate or

\$2,800.00 @ the 28% tax rate

3) State Income Tax @ 4% = \$400.00

This is a total of

\$4,750.00 in the 28% tax bracket

\$4,430.00 in the 25% tax bracket or

\$3,430.00 in the 15% tax bracket

I think you can see how important it is to use every deduction you are allowed.

A **loss** is deducted from all of your personal income. No self-employment tax is paid on business losses. The IRS knows that it is not uncommon for a new business to show a loss at first. They do, however, have the right to claim that your business is a hobby and disallow your losses if you don't at least start to show a profit in 5 to 7 years.

All business profits and (losses) carry over to your state income tax and resident city tax returns.

If you have more than one business, your profits and losses are combined before considering and self-employment taxes

How do you pay your taxes? You can make estimated payment quarterly. If you will owe taxes of more than \$1,000 you are expected to make estimated payment. You can adjust withholding from wages jobs to cover your business taxes.

Please feel free to share this Small Business Guide with other small business owners or individuals interested in starting their own business.

Please feel free to give us a call if you have any questions about the information in this guide.