

BUSINESS TIPS TAXES FOR *and* WRITERS

SMALL BUSINESS START UP GUIDE

By Carol Topp, CPA

TaxesForWriters.com/
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INFORMATION

This short guide is intended to help an individual start his or her own business. As a Certified Public Accountant, I have consulted with many people wishing to run a small business. This guide is a collection of the forms and papers I give to my clients wishing a quick, easy to understand guide. This guide is too short to be complete, so I recommend following books:

Business Tips and Taxes for Writers by Carol Topp, CPA
Small Business for Dummies
Guerrilla Marketing and its many variations
The Small Business Start-Up Kit from Nolo Press
Start Your Own Business by Rieva Resonsky

The internet is full of helpful sites. Here are few essential ones:

Business Tips and Taxes For Writers is my website for writers, bloggers, freelancers and self-published authors offering clear information on unclear topics. TaxesForWriters.com

360 Degrees of Financial Literacy: This website hosted by the American Institute of CPAs has great articles, tools and FAQs on being an entrepreneur. <http://www.360financialliteracy.org/Life-Stages/Small-Business-Owners>

The IRS Small Business website has useful information on taxes, employees, and record keeping. <http://www.irs.gov/businesses/small/article/0,,id=99336,00.html>

The Small Business Administration has information, articles, newsletters and even free on-line training in starting a small business. <http://www.sba.gov/>

and, of course, contact me by e-mail at Carol@TaxesForWriters.com if you have any questions.

CHECKLIST FOR STARTING A SMALL BUSINESS

- Apply for an EIN (Employer Identification Number) at www.irs.gov.
If you are a sole proprietor with no employees, you do not need an EIN; you can use your name and Social Security Number.
You will need an EIN if you have employees or apply for a vendors license to collect sales tax on product sales.

Some banks want businesses to have EINs to open bank accounts.

- Select a Business Structure. Your choices are:
 - A sole proprietorship is easiest to form. No paperwork!
 - Partnerships must have a partnership agreement; in writing is recommended.
 - Corporations are issued by the state.

Limited Liability Company (LLC) is not a tax status, but is recommended if you have liability concerns because the owner has limited personal liability for the debts and actions of the LLC. A sole proprietor can be a single member LLC.

- Choose a Tax Year
Calendar year the simplest and most commonly used.
- Choose Your Accounting Method
Cash-based accounting is easiest to understand. Income is accounted for when the cash arrives.
Accrual accounting is common if you have inventory or invoice customers or are paid in installments. Income is accounted for when earned, even if you have not received payment yet.
- Hire Employees
Have employees fill out I-9 for immigration and W-4 for tax withholding.
Investigate your state requirements on Workers Compensation and Unemployment taxes.
- Pay Your Taxes
Income Tax
Sole proprietorships pay taxes on Schedule C attached to their annual Federal 1040.

Federal tax is a pay-as-you-go system, so you may need to make quarterly payments if you are profitable. Use Form 1040ES (Estimated Taxes) to calculate your estimated quarterly federal income tax.

If you are a partnership or a corporation, consult a CPA to prepare your tax return.

Self-Employment Tax (Social Security and Medicare taxes for self-employed individuals).

As a sole proprietor, you pay both halves of Social Security & Medicare tax, employee and employer shares, for a total of 15.3 % of your profit. Use Form 1040SE and attach to it your Form 1040.

Employer Taxes if you have employees

If you hire employees, you will have to withhold Federal Income tax (according to their W-4 requirements), Social Security and Medicare and Federal Unemployment taxes. There are also state and city income tax withholdings, state unemployment tax and workers compensation taxes. [IRS Publication 15 E Employer's Tax Guide](#) is very helpful.

Sales Tax

Most states tax retail sales of tangible, personal property; some also tax certain services.

You usually must obtain a vendor's license, collect and remit sales tax to your state's Department of Taxation.

This site can lead you to your state and local business regulations:
<http://www.business.gov/states/>

RECORD KEEPING FOR SMALL BUSINESSES

Your records must show your gross income, as well as your expenses. You need these records for tax purposes and also so that you know how your business is doing financially. There are three important types of record you should keep.

1) For most small businesses, the business **checkbook** is the main source for entries in the business books. Keep your checkbook statements, canceled checks, and deposit slips. Use duplicate checks.

2) **Supporting documents** include

- sales slips
- paid bills
- invoices
- receipts
- credit card sales records

These documents contain information you need to record in your books. Organize them by type of income or expense.

3) Keep copies of everything you mail to the **IRS or state or city government**.

BOOKKEEPING SYSTEM

The single-entry system of bookkeeping is the simplest to maintain. Keep a page for each month. Have 4 columns:

Date
Description
Income
Expense

Total Income and Expense columns each month. This record keeping is very helpful for tax purposes. You can also monitor your business every month for performance.

Month of: January 2005			
Date	Description	Income	Expense
1/4/2005	Postage		\$12.00
1/10/2005	Client X income	\$50.00	
1/25/2005	Web site monthly fee		\$19.95
1/30/2005	Consult with accountant		\$55.00

To Do One a Monthly Basis:

1. Total up all income.
2. Total up all expenses.
3. Calculate Net Profit.

To Do on a Quarterly Basis:

1. Total Monthly Net Profit for the quarter.
2. Pay Self Employment tax if Net Profit is more than \$400
3. Pay Federal Income Tax if Net Profit is more than approx \$5,000

To Do on a Yearly Basis

1. Fill out Schedule C (Net Profit from Business) attach to your 1040
2. Fill out Schedule SE (Self Employment Tax) attach to your 1040.

LIST OF COMMON TAX DEDUCTIBLE EXPENSES

:

- Advertising and promotion, including charitable contributions that result in publicity for the business. Include flyers, business cards, yellow page ads, newspaper, magazine, and radio ads, signs, billboards, and brochures.
- Accounting and bookkeeping fees including the portion of your tax return preparation fee that includes your business return.
- Bank service charges including safe deposit boxes, bank overdraft fees, check printing, etc.
- Car and truck expenses. Mileage is deductible at a rate of 40.5¢/mile for 2005. Don't forget the miles you drive on errands such as picking up office supplies and going to the post office.
- Contract labor, including subcontractors and consultants.
- Credit card annual fees for cards used in your business. If your card is used partly for business and partly for personal expenses, pro-rate the fee accordingly.
- Computer supplies, printer ink cartridges, upgrades, etc.
- Delivery costs. The costs of shipping your product or delivering your service is deductible as well as shipping you pay on purchases.
- Depreciation on business furniture and equipment and vehicles. See an accountant about this first. There are options of either spreading the cost of the asset over several years (depreciation) or taking the deduction all in one year. It can also be confusing to determine if a purchase is an asset or just a normal business expense.
- Dues and fees to belong to professional associations.
- Education, including seminars and conferences that increase your knowledge and skills. You can't deduct the cost of education that prepares you for a new line of work.
- Employee pensions and benefit programs
- Entertainment and business meals (these are 50% deductible)
- Equipment, including computers (see information about depreciation.)
- Furniture for your office or home office. Sometimes an asset to be depreciated, sometime a simple expense if it's small.
- Gifts to business associates or clients (up to \$25 per person per year is deductible)
- Home office expenses, if you qualify. You can take the deduction if you have a space in your home that's used *regularly and exclusively* for business. If you claim the deduction, the business percentage of all related expenses (i.e. insurance, real estate tax, mortgage interest, rent, maintenance, etc.) can be taken.
- Insurance. This includes liability, malpractice, business overhead, workers compensation, and other business-related insurance.
- Interest on business credit cards and loans.
- Internet access charges/on-line charges:
- Legal and professional fees, including costs for preparing the business portion of your tax return

- Licenses and fees. Any license or regulatory fees paid to governments as part of your business are deductible.
- Magazines and books that you read to enhance your business.
- Maintenance and repairs on equipment and office or store space
- Office supplies like staplers, calendars, letter trays, paper reams, etc. are all deductible.
- Online fees, based on the percentage you use the Internet for business
- Parking and tolls. Don't forget to include the amount you spent on parking meters.
- Payroll taxes that you pay on behalf of your employees (not the taxes that are withheld from your employee's pay checks.)
- Postage, delivery, and freight costs. Stamps are deductible.
- Printing, copying, and fax charges.
- Rent of equipment and store or office space
- Repairs and maintenance of business equipment: This is an area where you need to talk to an accountant to make sure you are not deducting a capital expense that should be depreciated.
- Subscriptions: just like educational expenses, subscriptions to informative magazines are deductible.
- Small furnishings and equipment
- Small tools
- Telephone: Monthly service charges are deductible only if you have more than one phone line in your home. Long distance business calls are deductible.
- Travel for business, including costs to go to seminars and conferences. Deductible travel costs include hotels, airfare, taxis, car rentals, tips, and so on. These expenses are 100% deductible. Travel meals are only 50% deductible.
- Uniforms or special work clothing (i.e. steel toed boots or coveralls)
- Utilities including electricity, water, gas, etc.
- Wages: Wages paid to employees are deductible. Consult an accountant if you have employees, because there are several complicated of tax issues.

BUYING BUSINESS PROPERTY OR EQUIPMENT

If you buy property with a useful life of more than one year, it is treated differently than day-to-day expenses. It is called a *capital expense* because it has a life of more than one year. The expense may be deducted over several years. This is called *depreciation*

The property can be anything tangible and used for business like, cell phones, buildings, cars, machinery, computers, equipment.

The method for depreciating an item depends on its useful life. The IRS has tables to determine “useful” life.

The IRS also lets a business owner deduct up to \$100,000 of business property in the year its was purchased. This is called a *Section 179 Deduction*

Use IRS Form 4562 Depreciation to calculate depreciation or the Section 179 deduction

Keep records on:

- Property or Equipment Purchased:
- Purchase Date:
- Cost including shipping and sales tax:
- Percent used for business:

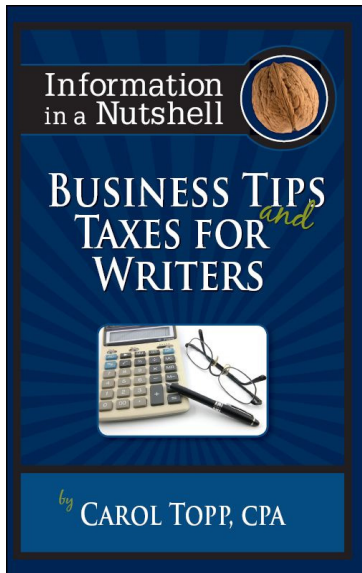
Date purchased	Description of Property	Purchase Price*	Percent Business Use

* Include shipping and sales tax

I hope this brief guide gets your business up and running!

There is more to learn and I encourage you to visit

BUSINESS TIPS AND TAXES FOR WRITERS
AT
TAXESFORWRITERS.COM



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