

Tax Trouble? Top Tax Issues for Small Business Owners

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Three Steps to Tax Compliance

1. Get a tax ID number (EIN)
 2. Sign up for state/local taxes
 3. File your returns on time
- That's it – do these three things and you're doing everything you can to comply with the tax laws 😊!

Step 1: Getting a Federal Tax ID Number

- Sole proprietors can use your Social Security Number, but don't do it!
- Partnerships, corporations and LLCs must have a separate tax ID number – can have more than one for different lines of business
- ID numbers are available over the phone (800-829-4933) or at www.irs.gov
- Changes in a company's legal status (partnership to sole proprietor, for example), require a new tax ID number

Step 2: Sign Up for State/Local Taxes

- The most commonly ignored step when setting up a small business
- Corporation or LLC taxes
- Sales and use taxes
- Payroll/employment taxes
- Other taxes (personal property, “floor”)
- Don’t forget county and municipal taxes!
- Bottom line – have an accountant help you with the registration form – often they don’t even charge you for this

Step 3: File Your Returns on Time

- All tax returns are due April 15, EXCEPT
- Corporations and “S” corporations – their taxes are due March 15
- Can extend filings for 6 months – same as for 1040s, BUT
- If you owe tax, you must pay by the due date even if you extend your filing date

Income Taxes: Some Common Traps

- All income must be reported
 - If all you get is checks and credit card payments, there's nowhere to hide
 - If you're in a business that involves lots of cash payments, you will be audited, sooner or later
- All 1099s and W-2s must be attached to your tax return
- Must have backup documentation for ALL deductions

Income Taxes: Is Life Deductible?

- Accountants won't always volunteer information about what can and cannot be deducted
- Build a library of “checklist” books on deductions you can take [some listed at end of this presentation], and ask your accountant for advice on your eligibility for them
- Never deduct expenses that were reimbursed by an employer or client!
- Be conservative when taking “aggressive” deductions the IRS always zeros in on (meals, entertainment, “business conferences” in another country) – consider not taking them at all if they're not significant

The Home Office Deduction

- It's not an "audit trigger" anymore!
 - Measure your home office accurately
 - Keep personal stuff out of your office
 - Calculate your "home office percentage"
 - Know what expenses are NOT deductible
 - It's OK to add Storage/Warehouse space
 - But ONLY that space (not the whole basement unless you are actually using it to store inventory)
- Deducting your rented apartment (you can)
- Deducting someone else's home (you can't)

Deducting the “Fun Stuff”: Meals and Entertainment

- Business meals and entertainment expenses generally are 50 percent deductible
- The cost of getting to the restaurant or entertainment event, however, is 100 percent deductible - regardless of whether you travel by car, subway, or limousine
- Holiday parties, picnics, and similar events held for employees and their families are 100 percent deductible, provided that they occur infrequently and that everyone at work is invited (business need not be discussed at these events)

Deducting the “Fun Stuff”: Travel Expenses

- Domestic travel – can deduct all expenses if the trip is purely for business, but only 50% of meals and entertainment; if business and pleasure are combined, only the business costs can be deducted
- Foreign travel
 - For trips of less than a week with a purely business purpose (attending a trade show, sales meetings with overseas buyers), can deduct 100% of expenses
 - For longer trips, or mixed business/personal trips, must break out time actually spent on business as percentage of total trip time, and document, document, document

What Records Should You Keep?

- Tax returns – forever
- Income and expense receipts – 6 years at least, forever if you can
 - Cash, checks, credit cards and online payment systems (PayPal): keep all monthly statements (print them out if online)
 - Documenting cash receipts and expenses
 - Separate your business expenses (Schedule C) from your “home office” expenses

What Records Should You Keep?

- Special requirements for travel, meals, entertainment and auto expenses (see IRS Publication 463)
- Meals: keep the restaurant bill, and write business purpose and names of fellow diners on the back
- Entertainment: keep a copy of the event program, and describe attendees/business discussed on back of ticket stub or program, or prepare “morning after” memo to files (if you remember . . . 😊)
- Travel: keep a logbook, diary or timesheets, esp. for foreign travel (“what you did on your summer vacation”)
- Auto: Must keep logbook showing mileage and destinations (e.g. “09/09/09 -- 0.6 miles – from home office to UPS Store and back again”)

Estimated Taxes: Some Common Traps

- You pay your taxes quarterly if you have more than \$1,000 of tax liability in a calendar year
- They are due April 15, June 15, September 15 and January 15
- Two ways to calculate estimated taxes
 - “Safe Harbor”—110% of last year’s tax liability
 - SWAG Method—100% of projected tax liability for this year
- Learn how to “escrow” for estimated taxes so there’s always enough cash on hand to pay them

Sales Taxes: Some Common Traps

- Creating “nexus” in another state
 - physical presence
 - working with someone who has physical presence (“home office” employee)
- Charging tax without warning buyer first (can be “usury” in some states)
- A growing number of states require tax on services – talk to your accountant

Are There Sales Taxes on Internet Commerce?

- You betcha
 - Current law: sales taxes only apply to in-state transactions, and interstate transactions if you have a “nexus” (physical presence) in the other state
 - Law may be changing soon—Streamlined Sales Tax Project (SSTP) legislation is pending in US Congress, and will probably pass
 - www.avalara.com (software product that helps you calculate sales tax everywhere in U.S.)
- Watch out for “nexus” rules that require you to charge sales tax in other states:
 - “Drop shipping” arrangements
 - Consignment sales

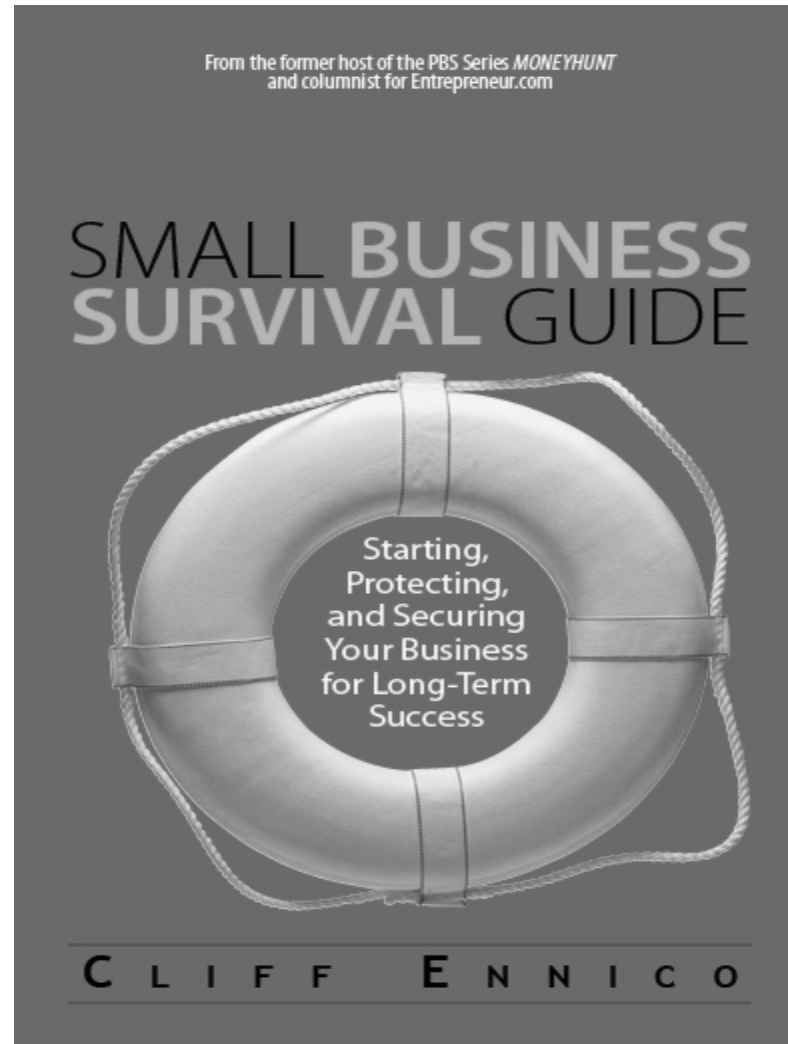
Use Tax: The Next Big Tax Trap

- A “reverse sales tax”
 - Every state that has a sales tax also has a use tax
 - Applies only to things bought for consumption (as end user) for which sales tax is not paid
 - May apply to Internet and interstate sales
 - File returns and pay taxes same time as sales tax (sometimes on same return)
 - States are auditing more aggressively to pick up revenue from e-commerce activities
 - NEVER put a “zero” on the “use tax” line of your sales tax return – it’s an invitation to an audit
 - Always pay use tax on items purchased from a foreign (non-U.S.) vendor

Suggestions for Further Reading

- “The eBay Seller’s Tax and Legal Answer Book” by (ahem) Cliff Ennico (AMACOM, \$19.95)
- Several good books by Nolo Press (www.nolo.com) – they even have forms and sample tax returns!
- “422 Tax Deductions for Businesses and Self-Employed Individuals” by Bernard Kamoroff (Bell Springs, \$18.95)
- “J.K. Lasser’s 1001 Deductions and Tax Breaks 2008” by Barbara Weltman (Wiley, \$17.95)

Thank You!



From the former host of the PBS Series *MONEYHUNT*
and columnist for Entrepreneur.com

SMALL BUSINESS SURVIVAL GUIDE

Starting,
Protecting,
and Securing
Your Business
for Long-Term
Success

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