

Starting Your Business

Objective: Start a small business for fun, profit and huge tax deductions.

You may have discovered that you have the personality, talent and the built-in entrepreneurial skills to start your own small business. Now, consider many of the financial and personal rewards and, if you wish, take advantage of those rewards by starting your own part-time or full-time business.

Time Required: Three to five hours.

Instructions: Review the Business Deductions and Credits list. In a small business, many of the personal things you own and do become fully or partially tax deductible. Your review of the Business Tax Deductions and Credits list will emphasize to you the importance of a small business as part of your tax strategy. A small business, even run part-time from your home, can create \$6,000 to \$10,000 of tax shelter every year, no matter how profitable your business is or isn't

Choose a small business idea that is exciting, fun and in alignment with your interests and abilities. Review the list of small business ideas to stimulate your thoughts. Complete the Business Start-up Checklist as a guide to getting your business up and running in the shortest time. Use the worksheet to determine what entity will best serve your purposes.

Checklist

Date Completed

1 Determine the deductions that will be available to you as a business owner

2 Choose a small business idea that is fun and in alignment with your interests and abilities.

3 Review the **Business Start-up Checklist**.

4 Use the worksheet to **Compare Entities and Choose a Business Form!**

Business Deductions and Credits Checklist

Turn many of your everyday expenses into tax deductions or credits. Review the list check off the tax savings that your business will provide.

- Advertising.** This includes any marketing campaign, promotional items, ads, banners, website, signs, etc...
- Automobile expenses.** For vehicles used for business purposes in 2006, you can claim 44.5 cents per mile, plus parking and tolls - for 2007, the standard mileage rate for business driving increases to 48.5 cents a mile. Also, you can claim the actual cost of operating the vehicle, including fuel, repairs and depreciation.
- Bad debts.** Money that your business loaned that was not repaid.
- Banking fees.** The cost of checks, monthly account fees, set up costs, overdraft fees, etc...
- Business gifts.** The deductible limit on business gifts is \$25 a year per customer or client.
- Business meetings.** Expenses incurred to host or attend business meetings.
- Child care on-site.** Employers can claim a tax credit of up to \$150,000 a year for the cost of providing child care or building and/or operating child-care facilities for their employees.
- Commissions and fees.** Commissions paid to salespeople and other workers.
- Community development corporations.** Investors in community development corporations selected by the federal government get a tax credit for 5% of their investment for the first ten years of their investment.
- Contract labor.**
- Credit card fees.** Merchant account fees for setting up, maintaining and utilizing the ability to take payment by credit card.
- Disabled access credit.** This credit helps small businesses cover ADA-related eligible access expenditures. The expenses must be associated with required adaptations to existing facilities.
- Domestic production deduction.** For 2006, businesses can write off 3% of their net income from U.S. production activities, the deduction increases to 6% in year 2007, and 9% in year 2010. These are qualified activities:
 - Manufacturing based in the United States
 - Selling, leasing, or licensing items that have been manufactured in the United States,
 - Selling, leasing, or licensing motion pictures that have been produced in the United States
 - Construction services in the United States, including building and renovation of residential and commercial properties,
 - Engineering and architectural services relating to a US-based construction project
 - Software development in the United States, including the development of video games.
- Depreciation.** If you depreciate your business assets such as office or operating equipment you write off a portion of the cost over time. Small companies can "expense" the cost of some assets placed in service, which means they get an immediate deduction of the full cost.
- Employee benefit programs.** Examples include cafeteria plans, relocation assistance, medical, prescription, vision and dental plans; health and dependent care flexible spending accounts, retirement benefit plans (pension, 401(k), 403(b)); group-term life and long term care insurance plans, legal assistance plans, adoption

assistance, child care benefits and employee discounts such as discounted shopping or theme park tickets.

- Expensing.** In general, businesses are allowed to "expense" items that would normally be depreciated - up to \$108,000 in 2006, and \$112,000 in 2007.
- Family Wages.** Shift business income to your lower tax bracket relatives. In most businesses there's always something left to be done - checking email, running errands or even washing the business vehicles – In 2006, you could have paid a child up to \$5,150 without either of you incurring a tax liability. If you're a sole proprietor, or if you and your spouse are the only principals in a partnership or limited liability company, you may save on some federal income taxes and state unemployment taxes. If you hire your children, you are relieved from withholding income taxes and paying payroll taxes, including Social Security, until the child turns 18. Also, you need not pay federal unemployment taxes until the child turns 21. If you hire your spouse or parents, you won't have to pay federal unemployment taxes on them either, but you will have to withhold federal income tax and pay FICA on them.
- Health insurance for self-employed.** If you are self-employed you can deduct 100% of premiums paid for your health insurance even if you do not itemize deductions.
- Home office expenses.** This includes mortgage interest, real estate taxes; insurance utilities, general repairs; and depreciation as well as direct expenses such as repairs to business equipment and supplies.
- Improvements to energy-efficient buildings.** Improvements that decrease a commercial building's energy usage by 50% or more can be expensed rather than depreciated.
- Indian employment credit.** The Indian Employment Tax Credit is an incentive to businesses to hire and retain individuals who are members of an Indian tribe.
- Insurance.** You can deduct the cost of most insurance policies including property and casualty protection, malpractice coverage and vehicle insurance.
- Interest.** Interest paid on money that you borrowed for business purposes.
- Legal and professional services.** This would include expenses for attorney fees, accounting, tax and business plan preparation.
- Low-income housing credit.** Allows companies to invest in low-income housing, while receiving 10 years of tax credits
- Meals and entertainment.** Deduct 50% of the cost of business related meals and entertainment.
- Net operating losses.** In general, your business net operating losses are carried back for two years but you can choose to carry them forward to offset income in future tax years.
- New York Liberty Zone credit.** Businesses in the New York Liberty Zone get a federal tax credit for hiring new employees.
- Office expenses.** Includes general costs such as pest control, cleaning or beverage services.
- Parties.** You can deduct expenses related to office parties or celebrations.
- Passive activity credit.** Use IRS form 8582 CR.
- Pension plan startup costs.** Small companies, generally those with fewer than 100 employees, are allowed a tax credit for the 50% of the cost of starting up new retirement plans. The maximum credit for a year is \$500.
- Phone, fax, cell and internet costs.**
- Postage and shipping costs.**
- Professional associations.** This includes the cost of membership in professional associations, boards or clubs.
- Recognition awards and prizes for employees.**
- Rent.** You can deduct any rents paid for your place of business or equipment.

- Repairs and maintenance** made to business equipment, office space, buildings and other business related property.
- Research and experimentation credit.** In general, businesses can claim a credit for the amount of any qualified research that exceeds a base amount. Qualifying expenses include in-house expenses for wages, salaries and supplies (but not computer hardware), computer leasing or time-sharing costs and certain contract research. The costs must be incurred on preproduction research for a new or substantially improved business component in physical, biological, engineering or computer science.
- Startup costs.** You can deduct up to \$5,000 of the cost of starting your new business. You may also elect to amortize the start up costs over a 60 month period.
- Supplies.** This includes cds, pens, paper, printer ink, paperclips, folders, calendars, staples and tape.
- Taxes and licenses.** This includes the businesses expense for Social Security tax and Medicare tax on employees' wages, as well as personal property taxes and the cost of business licenses. Self-employed workers can deduct 50% of the Social Security and Medicare taxes they pay on their earnings.
- Travel.** Includes expenses for transportation, lodging, laundry service, tips to porters or concierge, parking and fees for business related services such as fax and internet connections.
- Utilities.** Examples include electricity, gas, propane, heating oil, water and sewer fees.
- Wages paid to employees.**
- Work opportunity and Welfare-to-Work credits** for employers hiring members of disadvantaged groups, such as welfare recipients.