NEW BUSINESS GUIDE

Inside this issue:

Having your own business can be one of life's most rewarding experiences. It can also be a disaster.

Statistics show there are 15 to 20 million businesses in the United States of which approximately 4 out of 5 are sole proprietorships. 85% of them will fail in the first 5 years. This letter is designed to give you the strategies needed to be one of the survivors.

The Sole Proprietor is the simplest form of business organization. YOU are the business. You have control of all business decisions, and you assume all risks to the extent of your assets. As a Sole Proprietor, you have the freedom to take the profits from the business whenever you want. Just remember: ***KEEP GOOD RECORDS.***

RECORDKEEPING BASICS

Good business recordkeeping is essential. The government expects you to pay tax on your profits every year, your banker will expect to see how you are doing if you borrowed money to start your business, and you need to know if you are making a profit or losing money.

The two items you need to keep track of are income and expense.

You can use any system that works for you. The kind and amount of records you need to maintain depend on the size and nature of your business.

The following items are helpful in keeping track of income:

- Sales slips, invoices, statements
- Income and sales journals
- Bank deposits

The following items are helpful in keeping track of expenses:

- Receipts
- Journals or appointment books
- Check ledgers and cancelled checks
- Credit card statements

As you design the perfect recordkeeping system for your business, remember to KEEP IT ORGANIZED.

THE FOLLOWING SYSTEM IS SIMPLE AND EASY TO USE:

Business checking account: Deposit all income into the account and write checks for all expenditures.

Business credit card: Use this card for business only and make payments to it from the business checking account.

Cash receipt envelope: Keep an envelope to collect any expenses that you pay from personal funds and reimburse yourself out of the business account at least monthly.

Monthly filing system: In a separate file for each month, keep the bank statement, cancelled checks, check ledger, charge account statement, receipts, and your envelope with cash receipts.

Appointment book: Use it to document everything you do.

What expenses are deductible?
The two key words to remember are ***ordinary*** *and* ***necessary.***

EXPENSE CHECKLIST

The following list is not all inclusive, but it will give you a good idea of what receipts to save.

Accounting
Advertising
Alarm system
Amortization
Answering service
Auto expense
Bad debts
Bank charges
Cash short
Cleaning
Commissions
Consulting
Conventions
Data processing
Delivery
Depreciation
Dues
Education
Employee benefits
Entertainment
Equipment
Fees
Freight
Gas and oil
Gifts
Insurance
Interest expense
Janitorial
Laundry/uniforms
Legal
Licenses
Maintenance
Management fees
Meetings
Miscellaneous
Office supplies
Outside services
Parking
Permits
Postage
Printing
Professional fees
Promotion
Publications
Rent/lease
Repairs
Security
Seminars
Shipping
Stationary
Storage
Subscriptions
Supplies
Taxes paid
Telephone
Tools
Travel
Utilities
Wages

Plus…
Any other expenses that are ordinary and necessary.

If you keep an appointment book, it already shows where you went, so you can write a mileage total on each day without keeping a separate book. Do whatever works best for you.

In general, the standard mileage rate works best if your business mileage is high or your car is economical to operate. The actual expense method works best if your vehicle weighs over 6000 pounds, is costly to run, or you do not drive many miles in total.

BUSINESS MILEAGE GUIDE

Business mileage requires special record-keeping.
Whatever method you use, make sure to record the odometer reading at the beginning of the year. Mileage can be calculated for taxes in one of the following two ways:

Standard Mileage Rate:
This method can be used if you do not use your car for hire or operate a fleet of cars. The *standard mileage* rate is tied to gas prices and updated each year.

Actual Expense Method:
Records of all vehicle expenses must be maintained and applied to the business percentage. The expenses include gas, oil, lube, repairs, batteries, insurance, supplies, tires, washes and waxes. The business percentage of lease payments or depreciation is also deducted.

A daily log or record of mileage is essential. The mileage deduction can save you many dollars in tax. You will probably cheat yourself if you reconstruct at year end.

DEDUCTIBLE MILEAGE

You can use one of the following three scenarios to determine how many miles you can deduct. Keep in mind that **commuting is not deductible.**

If you have an office or regular place of business outside of your home, you may not deduct commuting miles to and from work, or to your first and from your last stop home, but you may deduct mileage to a *temporary* work place and mileage to drive to and from different locations during the day.

If you have an office in your home that *qualifies* for a home office deduction because it is the principal place of business, a place you meet customers, store inventory or samples, or perform substantial administrative or managerial duties for your business, **all** of your business-related mileage is deductible.

If you work at home, but do not qualify for the home office deduction, the distance between home and your first stop and between your last stop and home are non-deductible commuting miles. You should plan to have your first and last stops close to home to maximize the mileage deduction. A trip to the bank, post office, or a nearby supplier can help increase deductible business miles.

The proof is in the documentation.

HOME OFFICE BASICS

The home office deduction is allowed for taxpayers who use a portion of their home **exclusively** as the principal place of business, to store inventory, or conduct substantial management or administrative actions.

If you have an office as described above, you need to gather information to use one of the following two methods:

Method one: For tax years 2013 and after, you can take a home office deduction by multiplying the square footage of your exclusive space by $5 (maximum deduction of $1,500). This method is quick and easy.

Method two: This method requires a little more calculation, but may give you a better result.
You will need to measure the square footages of your office and your entire home to arrive at a percentage. This percentage of all the following expenses can be deducted from your business income: rent, interest, utilities, garbage, repairs, taxes, and insurance.
You **must** also take depreciation on this percentage of your home. To calculate the deduction you must know your total investment (cost plus improvements) in your home. In most cases the resulting depreciation is small, but a mandatory part of this method. When your home is sold, your gain on the business portion will not have to be taxed separately, it will only be taxed to the extent of depreciation taken since 5/7/97.

Whether you are a homeowner or you are a renter, the home office will enable you to deduct all of your business-related miles.

TRAVEL EXPENSES

Travel expenses are ordinary and necessary living expenses incurred when you are away from your tax home overnight for business.

Your **tax home** is the general area where your business is located, not necessarily where your principal residence is. If you are itinerant and move with your business from place to place, you will not be able to deduct travel expenses.

Travel expenses include:
- Transportation
- Cab fare
- Business phone calls
- Laundry/cleaning
- Meals
- Lodging
- Tips & baggage

Your travel records must show the following information:
- Dates and times of arrival and departure
- Number of days actually spent on business
- Business places visited
- Business reason for travel
- Costs and appropriate receipts

MEALS AND ENTERTAINMENT

Meals and entertainment are only 50% deductible for tax purposes.

Meals while traveling may be deducted using actual cost or a standard meal rate ranging from $46 to $71 a day.

Meals while entertaining must be deducted using actual cost. A log or diary documenting the expense must be maintained and should include all of the following information:

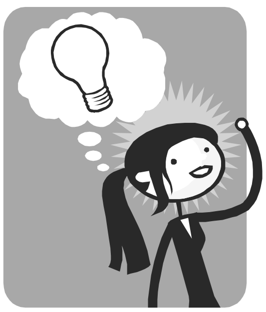
- Time
- Date
- Place
- Amount spent
- Business purpose
- Person entertained

Expenses must be ordinary and necessary and must be directly associated with your business.

Entertainment must be directly preceded or followed by substantial business discussion.

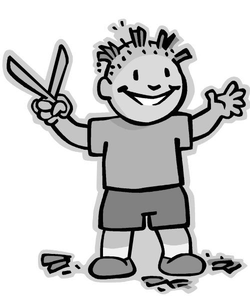
A receipt is needed for costs over $75.

A well-kept appointment book could be used to record entertainment, travel, and mileage all in one handy spot.



MONEY-SAVING IDEAS

Consider hiring your child and purchasing a Roth IRA with part of the child's earnings. Your contributions may be withdrawn tax free at any time. The earnings will be taxed, but not penalized if invested for 5 years and withdrawn for qualified higher education.



SHOULD YOU INCORPORATE?

Most small businesses are better off in the beginning with the simplicity a sole proprietorship affords. Because it's easy to set up, has more flexible recordkeeping rules, and is easy to discontinue, it's a good place to start.

You could consider incorporating if any of the following arise:

- You are unable to raise capital.
- Your customers want to do business with a corporation.
- You feel you need protection from liability that you cannot get with an insurance policy.

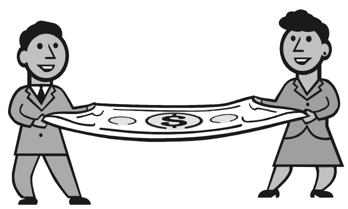
Before you incorporate, consider the benefits of a Limited Liability Company (LLC). The LLC entity is now available in all states. The IRS recognizes single owner LLCs as sole proprietorships. If you organize your business as a single owner LLC, you will get the limited liability of a corporation, a legal entity status for your business, and the flexible recordkeeping rules of the sole proprietorship.

HIRE THE KIDS

You can save money on your taxes by hiring your minor child. For the tax year 2014, your child can earn up to $6,200 working in your business before any tax needs to be paid on the earned income. This can be increased to $11,700 if a $5,500 traditional IRA is purchased. While your child earns tax free income, you save tax dollars by deducting the wages paid. In the 25% tax bracket, for example, $2,925 in Federal tax plus $1,653 in self-employment tax is saved by paying a wage of $11,700 to your minor child.

To take advantage of these tax savings, you must be careful that you take all the steps to prove you are entitled to the deduction:

- The child must do the work.
- You should have a written employment agreement.
- You need federal and state IDs.
- You need W-4's, I-9's and the time cards on file. Your child under 18 is exempt from FICA and Medicare tax.
- You must file quarterly and annual payroll returns.



HIRE THE SPOUSE

Hiring your spouse could enable you to deduct your medical insurance. If you provide medical insurance as an employee benefit, your spouse can elect family coverage and cover you.

You can also deduct all medical costs by setting up a medical reimbursement plan under Code Section 105.

Employing your spouse will also enable you to deduct his or her travel expenses if you travel together for business.

The law enables you to reimburse up to $250 of parking at or near work, up to $130 in mass transit expenses, or $20 to cover bicycle commuting expenses per month for your employees on a pre-tax basis.

START A PENSION

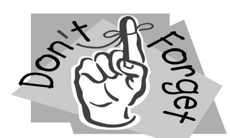
Save money on your taxes and provide for your retirement at the same time by contributing to a pension plan.

You can put up to 20% of your net income each year into a **SEP**. The decision to contribute can be made as late as the due date of your tax return for the year.

If you are a one person business, or are employing only your spouse, the SEP is great. If you have other employees, you will have to cover them at the same percentage as yourself.

You should consider the **Simple IRA** if you have employees. This plan needs to be set up by October to start it for any year.

Employees can elect to put up to $12,000 ($14,500 if age 50 or over) for 2014 into the plan on a pre-tax basis. You must contribute 2% of all employees wages or 3% of contributing employees wages. It's a simple, easy way for a small employer to provide retirement.



YOUR ESTIMATES

You are a Sole Proprietor, but Uncle Sam is really your business partner and he's waiting for his cut. It is a good idea to set aside 25-30% of each dollar you earn in a separate place for taxes. At the end of March, May, August, and December you should figure net income to calculate and pay your income tax on Form 1040 ES. The IRS may charge a penalty if you do not. You have a much better chance of survival if you do.