New Business Guide

Business ideas for the small business

Recordkeeping Basics

Good business recordkeeping is essential. The government expects you to pay tax on your profits every year. Your banker will require documentation of how your business is doing if you are looking to borrow money. You need to know if your business is profitable.

You will need to track your income and expenses. You can use any system that works for you. The kind and number 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, or 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

Business Suggestions:

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

Business credit card: Use this card for expenses pertaining only to your business. Make payments to the credit card 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.

Filing System: Put all of your receipts into a file by category. One file for each: Bank statements, cancelled checks, check ledger, charge account statements, and individual expense accounts. This will make the end of the year recordkeeping much simpler.

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: method can be used if you do not use your car for hire or operating 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 and save you a lot of time. Often times, the mileage deduction is larger than the actual expenses.

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.

Terri's Tax & Notary llc

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 workplace 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, the 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 in a home but do not qualify for the home Office deduction, The distance between home and your first stop in between your last stop and home are nondeductible 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 mileage for your business. **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, up to a maximum of $1500. This method is quick and easy.
Method 2. This method requires a little more calculation but may give you a better result. You will need to measure the square footage 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, which is your cost plus your 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 5797.

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 or cleaning? Meals.**
- **Meals.**
- **Lodging.**
- **Tips and 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.

Business meals are 50% deductible for tax years other than 21 and 22. Business meals from restaurants. We are 100% deductible for those two years. Meals while traveling may be deducted using actual cost or standard meal rate ranging from $59 to $79 a day depending on the location. 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 the business.

Client entertainment deductions were eliminated by the Tax Cuts and JOBS Act for the tax year 2018 and beyond. You are still allowed to deduct the meal food portion for such events. For example, if you take clients to a baseball game, the hot dogs, peanuts, and beer are deductible, but the tickets to the game are not.

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.

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 an 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. In this case, you should consider the SIMPLE IRA. This plan needs to be set up by October to start it for any year.

Employees can elect to put up to $15,500 or if they are over the age of 50, they can deposit $19,000 for the year 2023 into a plan on a pretax basis. You as the employer must contribute 2% of all employees' wages or 3% of contributing employee wages. It is a simple, uncomplicated way for a small employer to provide a retirement.

Estimate Tax Payments

You are the sole proprietor, and it is important to remember that you will owe income tax and self-employment tax on your profits each year. It is a good idea to set aside 25 to 30% of each dollar you earn in a separate account for taxes. At the end of March, May, August, and December, you should figure your profit to calculate and pay your estimated income tax. If you owe more than $1000 you may owe a penalty to the IRS. Great record keeping will ensure that you have all of the information necessary to file these properly and are not overpaid.

Terri's Tax & Notary llc