

## A Bright Idea

Do you have an entrepreneurial spirit? Do you dream of being your own boss? Many people have solid ideas and the desire to start a new business, but they either lack the courage to take the first step or they don't know where to start. Here's some information that may help guide you in taking those first steps.

## Develop a Business Plan

A business plan is important for obtaining a business loan to set up operations. It's the blueprint of your operations for the next couple of years. You control the level of detail, but a good business plan should cover:

- Type of business, product or service offered
- Type of customers
- Pricing
- Start-up capital
- Forecasting of revenue and expenses
- Marketing plan

For help, consult sources at the public library, over-the-counter computer software, the Chamber of Commerce, local colleges, and websites such as the Small Business Administration ([www.sba.gov](http://www.sba.gov)).

## Registering a Business

From a tax standpoint, you need to decide whether you're going to embark on this endeavor alone as a sole proprietor, or with others as a partnership. You may also want to consider incorporating. Depending on which one you choose, you may have to deal with legal ramifications. Some states

allow you to simply start a business. Others require you to register the type of business and follow certain guidelines before you are able to open the doors. It's advisable to have an attorney assist with this process.

## Business Location

The location could be crucial, depending on the business type. Parking, space and cost are all important considerations.

## Tax Considerations

Most businesses need an employer identification number (EIN). This number is the equivalent of a social security number for a business. To obtain a federal EIN, file Form SS-4, *Application for Employer Identification Number*. Form SS-4 is available from your tax preparer, the IRS or the Social Security Administration. You can apply for an EIN online or by phone, fax or mail.

You'll need to include your EIN on all employee payroll reports. Even if there are no employees, all businesses, other than sole proprietorships, must have an EIN to file income tax returns. Additionally, your state will probably require a state identification and/or sales tax number for the same reasons.

## Employees

If you plan to have employees, you are generally responsible for:

- Payroll taxes
- Social security taxes

- Medicare taxes
- Unemployment taxes
- Collection of federal and state (where applicable) withholdings
- Employee's share of social security and Medicare taxes

As an employer, you are responsible for making deposits of the collected taxes at the appropriate times throughout the year.

Unless you qualify as a small employer who files Form 944 annually, file Form 941 quarterly to inform the government of the withholdings and payments.

The IRS will require you to annually file Form 940 for unemployment tax information. Failure to file and pay on a timely basis could result in severe penalties.

Some employers avoid the payroll cycle by treating individuals as independent contractors. The IRS has issued a set of criteria it uses to determine whether an individual is an employee or an independent contractor. If you incorrectly treat an employee as an independent contractor, you may be subject to penalties. Before you make this determination, discuss it with your tax advisor.

You may also need to make estimated tax payments for the business entity. The sole proprietor would be responsible for income tax and self-employment tax on the business profits.

## Record Keeping

It's important to establish a good record-keeping system early in your business. It's necessary to keep an accurate account of payroll records and all income and expenses related to the business.

Most businesses have the option of choosing the cash method, the accrual method or a hybrid method of accounting.

If the IRS were to audit your return, you may have to prove expenses by producing receipts.

## Start-Up Costs

You may need to separate some expenses. The two categories are:

- Expenses you incur in exploring and setting up the business. You may deduct \$5,000 of start-up costs in the year the business begins. The remaining expenditures are amortized over 180 months, beginning in the first year your business begins.
- Expenses you incur from the time the business officially begins. These are currently deductible.

Start-up expenses may include training wages, pre-opening utilities, rent, advertising, depreciation and any exploration costs.

## Capital Expenditures

Not all of the expenses paid for a business are currently deductible. Items that have a life of more than one year are currently depreciated or amortized rather than deducted. Equipment and real estate are common examples of depreciable assets.

If your business requires you to maintain an inventory of the items you sell or use to make a product, these costs become part of inventory, which you'll deduct as you sell the product. It's necessary to keep accurate records of the beginning and ending inventory each year.

## Other Considerations

- Liability and asset protection
- Fringe benefits desired (if any)
- State and local requirements, such as licenses, permits and registration of the business

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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