



Starting a Business

Do you have the desire to be your own boss? Do you think you have some good ideas about a business venture? Many people have that desire but they either lack the courage to take the first step or they don't know where to start. Here is some information that may help guide you.

Once you have gotten past the preliminary stages of deciding what type of business you want to start, you will need to create a business plan. This is the blueprint of your operations for the next couple of years. You control how detailed the plan will be, but it should cover: the type of business, product or services offered; types of customers; pricing; start-up capital; forecasting of revenue and expenses; and marketing plans. If you need assistance in preparing a business plan, check out the following sources: the public library, over-the-counter computer software, the Chamber of Commerce, local colleges, or online at web sites like the Small Business Administration at www.sba.gov/starting. This business plan will be important if you need to get a business loan to begin operations.

After a financial plan has been established you need to look at other issues.

Registration of Business

From a tax standpoint, you need to decide whether you are going to embark on this endeavor by yourself, as a sole proprietor, or with others as a partnership. You may also want to consider whether you should incorporate. Depending on which you choose, you may have to deal with legal ramifications. In some states you can hang out a shingle (so to speak) and you're in business. Other states require you to register the type of business and follow certain guidelines before you are able to open the doors.

Location of Business

The location of your business could be crucial, depending on what type of business you have. Certain businesses may easily be operated from your home. Other businesses need to have a fixed location that is easily accessible to your clients. Parking, space, and cost are all important considerations.

Tax Considerations

Most businesses need to have an employer identification number (EIN). This number is the equivalent of the Social Security number for a business. If you have employees you will need to have this number for the payroll reports regardless of what type of business entity you are. If you are an entity other than a sole proprietorship, you will need an EIN to file your income tax return even if you have no employees. In addition, your state will probably require a state identification and/or a sales tax number for the same reasons.

A federal EIN is obtained by filing Form SS-4, Application for Employer Identification Number. This form is available from your tax preparer, the IRS, or the Social Security Administration. You can file it through the internet, mail it to the IRS service center for your area, fax it to the IRS, or use the Tele-TIN phone number listed in the instructions.

Employees

If you plan to have employees, you are responsible for payroll taxes. As an employer you generally are responsible for paying Social Security taxes, Medicare taxes, and unemployment taxes. In addition you need to collect federal and state (where applicable) withholdings and employee's share of Social Security and Medicare taxes. You are responsible for making deposits of these taxes at the appropriate times throughout the year. On a quarterly basis you need to file a Form 941 to inform the government of the withholdings and payments. A Form 940 for unemployment tax information is required on an annual basis. Failure to file and pay on a timely basis could result in severe penalties.

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

Record Keeping

It is important to establish a good record keeping system early in your business. In addition to keeping payroll records, an accurate account of all of the income of the business, as well as the expenses, is necessary. You will need to determine what accounting method is appropriate for you. Most businesses have the option of choosing the cash method, the accrual method, or a hybrid method. If the IRS were to audit your return, you may have to prove expenses by producing receipts.

Start up Costs

Some expenses may need to be separated. The two categories are: 1) expenses incurred in exploring and setting up the business; and 2) expenses incurred from the time the business officially begins. There are specific rules regarding amortizing these expenses. Consult your tax advisor for the method that best fits your situation.

Capital Expenditures

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

If you're in a business that requires you to maintain an inventory of the items you sell or use to make a product, these costs become part of inventory and are deducted as you sell the product. It is 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

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Not every item in our library will be applicable to your situation. If you need further advice, please feel free to give us a call any time at (608) 756-5354. Summit Accounting Group Inc. of Janesville, Wisconsin

