A GUIDE TO SETTING UP A SMALL BUSINESS AND PROPERLY TRACKING YOU INCOME & EXPENSES

Referral for Business Set Up at 25% off for Traveler's Q Independent Contractors, please contact me for the contact information

STEP 1:

a. Form a LLC with the state you live/work in
b. Obtain a Tax ID/EIN # for the LLC
c. Open a business bank account using the documents from a & b

<u>Advantages of having getting incorporated:</u>

Advantages:

1. Tax Flexibility:

The IRS does not consider an LLC to be a distinct separate entity for tax purposes. This means that, at least initially, the IRS will not tax the LLC directly. Instead, members of the LLC get to determine how they want to be taxed. There are several options:

- Single member LLC: This structure is taxed like a sole proprietorship. Profits or losses from the business are not taxed directly but instead are taxed through the single member's personal federal tax return.
- Partners in an LLC: Members elect to be treated like a traditional partnership for tax purposes.
- LLC filing as a Corporation: The members of the organization may also choose to file as if they were corporation.

Generally, members of an LLC will create an **<u>Operating Agreement</u>** that outlines how the LLC will be treated for tax purposes. Some LLCs are automatically classified as corporations by the IRS, so be aware. Further information on how the IRS classifies some LLCs can be found at IRS.gov.

2. Less Paperwork:

Compared with C-Corps or S-Corps, LLCs are very flexible. Once again, you'll want to have an LLC Operating Agreement so you can create rules that govern your business. Otherwise, your company will be governed by the default rules in your state.

With less stringent requirements for compliance and less necessary paperwork, LLCs are easier to form and easier to keep in good legal standing.

3. Limited Liability:

Like corporations, LLCs provide their members protection from liability. This means that members are not personally liable for debts and often court judgments incurred by the LLC. Creditors are foreclosed from seeking the personal assets of the LLCs members. It is a meaningful shield not provided in a sole proprietorship or traditional partnership.

Disadvantages:

1. Self-Employment Taxes:

Unless you choose to be taxed like a corporation, LLCs are usually subject to self- employment taxes. This means that the profits of the LLC won't be taxed at the corporate level, but will pass through to its members who will account for those profits on their personal federal tax returns. Oftentimes, these taxes are higher than they would be at the corporate level. Individual members will pay for federal items like Medicare and Social Security. For this reason, if you do choose to start an LLC, it's a great idea to speak to a knowledgeable lawyer or accountant.

2. Confusion About Roles:

Whereas corporations have specific roles (like directors, managers, and employees), LLCs generally do not. This can make it difficult for the company and especially investors to know who's in charge, who can sign certain contracts, etc. Some of this confusion can be avoided by creating an LLC Operating Agreement.

3. Limited Life:

In many jurisdictions, if a member departs the LLC, the LLC ceases to exist. This is unlike a corporation whose identity is unaffected by the comings and goings of shareholders. Members of LLCs can combat this weakness in the Operating Agreement.

Conclusion

LLCs give you a great combination of flexibility and protection. They shield members from personal liability while affording them an array of tax options. Of course, an LLC might not be right for your business. If you're having reservations, check with a tax professional or a tax attorney.

Step 2.

a. Deposit your income in the bank
b. Use your business account to pay for items that are ordinary and necessary for your business as listed in step 3 below:

Step 3:

As an independent contractor, you can deduct business expenses to help reduce your total tax bill. During the course of the year, you will need to maintain detailed records of your business-related expenses to make it easier to complete your tax return.

a. Ordinary and Necessary Expenses

The Internal Revenue Service defines legitimate expenses as those that are ordinary and necessary for your business. An ordinary expense is one that is line with the nature of your business. Basically, most expenses that you incur in the normal course of doing business can be listed as business deductions. For example, you can deduct the costs of advertising, including web hosting fees for an Internet site, as well as educational fees and the costs of subscriptions to newspapers or magazines if they relate directly to your business activities.

b. Supplies

Normal supplies necessary for conducting business are eligible to be deducted as business expenses. As an independent contractor, you will need business cards and possibly letterhead, invoice paper, envelopes, and postage. You may print promotional materials or contracts for doing business with clients. If you sell a product, that product is not considered a regular office supply deduction. You will need to calculate the cost of goods sold in order to write off the expenses of your inventory.

c. Home Office Expenses

If you conduct business from an office space outside your home, the rent and utilities associated with that office space can be deducted on your taxes. If you operate your business from a home office, that office space must be used exclusively and regularly for your business in order to qualify as a business deduction. You can also deduct expenses for a home office if you use your home office for administrative duties such as billing clients or writing contracts, even if your business is actually conducted at client sites. Home office deductions are limited to the percentage of your home used for business. If your home office space is 10 percent of your home's total square footage, you can deduct 10 percent of rent and utilities.

d. Capital Expenses

If you purchase certain office equipment, considered to be business assets rather than supplies, you will need to calculate those items as capital expenses (depreciated) rather than straight business deductions. Equipment and property expenses are depreciated over a certain period of time, depending on the type of expenses involved.

e. Travel and Vehicle Expenses

Certain entertainment expenses can be deducted as business expenses, although generally you can only deduct 50 percent of meals and entertainment. When you use your personal car for business travel, you have a choice of deducting a percentage of the actual car expenses or taking the standard mileage rate as a deduction. The standard IRS rate was 56 cents per mile in 2015.Other business related travel deductions include but not limited to the following:

i. Airfares
ii. Auto rental
iii. Hotel/Accommodation
iv. subsistence

f. Various Other Deductible Expenses

1. Your gross salary – this would usually be kept low, in order to maximize dividends payable to yourself as shareholder.
2. Spouse's salary (which must be actually paid and not unrealistic, having regard to the duties performed).
3. Motor expenses (mileage claims if the car is personally owned).
4. Telephone and business calls only.
5. Books, magazines, subscriptions and courses – where related to business and your contract work.
6. Bank service charges and interest – on your company bank account.
7. Pension – where paid by the (SEP, IRA, etc.).
8. Business insurances – professional indemnity, business contents and other business related insurances.
9. Computer costs.
10. Legal & professional (Atty, CPA, etc.)
11. Office Expenses
12. Permits & fees
13. Parking & Tolls
14. Rent
15. Utilities (see home office exp)
16. Various Start-up costs

g. NON-Deductible Expenses

Here is an updated list of expenses that the IRS generally considers nondeductible:

- Adoption expenses (but they might qualify you for the Adoption Tax Credit)
- Broker's commissions for IRA or other investment property
- Burial, funeral, and cemetery expenses
- Campaign expenses
- Capital expenses (but you can depreciate business property)
- Check-writing fees (non-business)
- Club dues
- Commuting expenses (but you could get these from your employer as tax free income)
- Credit card fees (non-business)
- Expenses of earning or collecting nontaxable income
- Fees and licenses

- Federal income taxes
- Federal estate taxes
- Fines and penalties
- Gift taxes
- Health spa expenses
- Hobby losses
- Homeowner's or renter's insurance
- Home repairs
- Home security system (unless you have a home office)
- Illegal bribes and kickbacks
- Investment seminar and convention expenses
- Legal fees and expenses (non-business)
- Licenses (marriage, driver's, etc.)
- Life insurance premiums (unless part of an alimony payment)
- Lobbying expenses (and charitable contributions used for lobbying expenses)
- Losses from the sale of your home, furniture, car, or other personal property
- Lost or misplaced cash or property
- Lost vacation time
- Lunches with co-workers (non- business)
- Meals while working late (unless they are business entertainment expenses)
- Medical expenses claimed as business expenses (except for medical exams required by your employer)
- Membership dues (not including professional societies)
- Personal disability insurance premiums
- **Personal, living, and family expenses**
- Pet tags and registration fees
- Political contributions
- Professional certification, accreditation, and licensing fees - personal
- Professional reputation improvement expenses
- Relief fund contributions
- Rent payments - personal
- Residential telephone service
- Stockholders' meeting attendance expenses
- Tax penalty payments
- Travel expenses for another person
- Voluntary unemployment benefit fund contributions
- Wages never received
- Wristwatches (even if related to a job requirement)