

STARTING A HOME-BASED BUSINESS

Forms of Business

- Sole proprietorships.
- Partnerships
- Corporations
- S-Corporations

Items that May be Needed:

1. Employer Identification Number (EIN)
 - a. Have employees
 - b. Operate your business as a corporation or partnership
 - c. File any of these tax returns:
 - 1) employment
 - 2) excise
 - 3) Alcohol, tobacco, and firearms.
 - 4) state sales tax
2. Payee's identification Number
 - a. Employee
 - b. Other payee's
3. Must determine your tax year for the business.
 - a. Usually calendar year unless you are a corporation or partnership.
4. Must establish and accounting method.
 - a. Two basic accounting methods
 - 1) Cash method
 - 2) Accrual method
 - A. Used especially if inventory is major component of sales.
5. Business Taxes
 - a. Income tax
 - b. Self-employment tax
 - c. Employment taxes
 - d. Excise taxes
 - 1) Manufacture or sell certain products
 - 2) Operate certain kinds of businesses, or
 - 3) Use various kinds of equipment, facilities, or products.
 - A. Environmental taxes
 - B. Communications taxes

- C. Fuel Taxes
- D. Tax on the first retail sale of heavy trucks and trailers,
- E. Luxury tax on passenger cars, and
- F. Manufacturer's taxes on the sale or use of a variety of different products

Information Returns that you may need to file:

1. Form 1099-MISC.
 - a. Payments of \$600 or more for services performed for your business by people who are not your employees.
 - b. Rent payments of \$600 or more, other than rents paid to real estate agents.
 - c. Prizes and awards of \$600 or more that are not for services.
 - d. Report sales by you of \$5,000 or more of consumer goods to a person for resale anywhere other than in a permanent retail establishment.
2. Form W-2
 - a. If you have employees.

Business of Your Home:

You must meet strict requirements before any expenses of the home can be taken as business expenses. You can take a limited deduction for its business use if you use part of your home **exclusively** and **regularly**:

1. As a principle place of business for any trade or business in which you engage,
2. As a place to meet or deal with patients, clients, or customers in the normal course of your trade or business, or
3. In connection with your trade or business, if you are using a separate structure that is not attached to your residence.
4. Used for the administrative or management activities of the trade or business.
5. There is no fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business.

There are two exceptions to the exclusive use test:

1. The use of part of your home for the storage of inventory or product samples and
2. The use of part of your home as a day-care facility.

Record keeping

Why Keep Records?

- a. Monitor the progress of the business

- b. Prepare financial statements.
- c. Identify the source of receipts
- d. Keep track of deductible expenses
- e. Prepare tax returns.
- f. Support items reported on financial statements and tax returns.

Kinds of Records to Keep

There is no requirement to maintain any special kinds of records. You can choose any system that is suited to your business as long as it clearly shows the income derived from that business.

Gross Receipts

- Cash register tapes,
- Bank deposit slips,
- Receipt books,
- Invoices,
- Credit card charge slips, and
- Forms 1099-MISC

Purchases

- Canceled checks,
- Cash register tape receipts
- Credit card sales slips, and
- Invoices.

Expenses

- Canceled checks,
- Cash register tapes,
- Account Statements,
- Credit card sales slips,
- Invoices, and
- Petty cash slips for small cash purchases.

Assets

- When and how you acquired the asset,
- Purchase price,
- Cost of improvements,
- Section 179 deduction taken,
- Deductions taken for depreciation
- Deductions taken for casualty losses, such as fires or storms,
- How the asset was used,
- When and how you disposed of the asset,
- Selling price, and
- Expenses of the sale.

Examples of supporting documents that may show this information include:

- Purchase and sales invoices,
- Real estate closing statements, and
- Canceled checks.

Business checkbook should be opened when you start your business. You should not use your personal checking account. The business checking account will be a basic source of information for recording all business expenses.

Bookkeeping Systems

There are two types:

A. Single-entry

1. A daily summary of cash receipts, and
2. Monthly summaries of cash receipts and disbursements

B. Double-entry

1. Transactions are entered in journals, and
2. Posted to ledger accounts which show income, expenses, assets, and liabilities.

Computerized System - computer software programs can be purchased to use for Record keeping. They can generally be purchased at low cost, are easy to use, and require very little knowledge of bookkeeping and accounting.