

## SMALL BUSINESS TAX TIPS

There's nothing like being in business for yourself--at least until tax time rolls around. Here are half a dozen tips to help you minimize your tax burden and maximize your bottom line.

**Get organized.** Not surprisingly, a commandment of the tax code is "thou shalt keep records appropriate to your trade or business." The law doesn't require most records to be kept in a particular form, but they must be accurate. You hate bookkeeping, you say? So do I and everyone I know. The problem is that this is not an officially recognized excuse with the IRS.

If you don't want to do it yourself, hire someone or get an easy-to-use software program like *Quicken*. This will also help you keep track of all your tax deductible expenses to make sure you don't miss any of them. If you want to take a stab at preparing your own business tax return, check out the new *Turbo Tax for Small Business* software; it allows you to import data from *Quicken* or most other accounting programs. Even if you use an accountant to do your tax return, using a software program lets you better organize the materials that he or she will need from you and gives you a better understanding of your tax situation. That should save you a few bucks on the tax preparer's fee.

**Write off the cost of new assets quickly.** You don't need to learn the Internal Revenue Code by number, but it pays to remember at least one: IRC 179, perhaps the biggest tax break of all for the small business owner. This provision

allows you to deduct up to \$17,500 of business asset purchases each year. It's called "expensing an asset," and it's the fastest way to get a tax benefit out of that new computer you are lusting after. As long as you make the purchase and begin using it, you can immediately deduct it instead of having to spread the deduction out over five years.

**Run the numbers on car expenses.** Cars are expensive to own and operate, so getting Uncle Sam to share this expense is a real treat. You can calculate your business vehicle expenses in two different ways; the mileage of actual expense method. usually the actual expense method gives a higher deduction if you own a late model car because you can take a depreciation deduction as well as claiming every dime you spend on upkeep and gas. The mileage method may be better if you drive a 50 mpg gas miser or a faithful old clunker. Generally, you may choose either method each year, so figure your deductions both ways each year and then choose. and if your taste runs to Lexus and Mercedes, leasing instead of buying may provide greater tax write-offs.

**Be careful with "independent contractors."** To reduce taxes and burden-some paperwork, many small business folks are tempted to misclassify employees as "independent contractors." Knowing this, the IRS is on the prowl. In a recent year, it charged over 1,700 businesses with violating the employee classification rules and reclassified 90,000 workers as employees. The business

owners were hit with over \$19 million in taxes and penalties. So be sure that you are following the law before you call someone an independent contractor.

**Throw a party.** Meals and entertainment expenses don't produce as much tax benefit as in bygone years because the IRS (Congress, really) now lets you deduct only 50% of the cost. But there are some exceptions, notably for employee and customer parties. Holiday get-togethers are 100% deductible as long as they are infrequent and everyone in the firm is invited. Don't worry, no business has to be transacted or even discussed, so enjoy this morale-building tax perk.



**Never, ever neglect payroll taxes.** If you have employees, always pay your payroll taxes, in full and on time. If you don't, the IRS will be knocking on your door and won't go away if you don't answer. The IRS tacks on interest and penalties to violators; the bill can skyrocket so fast that, typically, businesses fail as a result. And, unlike ordinary debts, payroll taxes survive bankruptcy or even death of a business owner