

# Small Business Startup Guide

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This short guide is intended to help an individual start his or her own business. As a Certified Public Accountant, I have consulted with many people wishing to run a small business. This Guide is a collection of the forms and papers I give to my clients wishing a quick, easy to understand guide. This guide is too short to be complete, so I recommend you visit your local library or bookstore and read some of the following books

**Small Business for Dummies**

**Guerrilla Marketing** and its many variations

**The Small Business Start-Up Kit** from Nolo Press

There are hundreds more, too many to list

The internet is full of helpful sites. Here are few essential ones:

**Ohio First Stop Business Connection:** The 1st Stop Business Connection, a program sponsored by the Ohio Department of Development's Small Business Development Centers and the U.S. Small Business Administration, provides FREE state-level information needed to get started or continue on your entrepreneurial journey.

<http://www.odod.state.oh.us/onestop/index.cfm>

**360 Degrees of Financial Literacy:** This website hosted by the American Institute of CPAs has great articles, tools and FAQs on being an entrepreneur

<http://www.360financialliteracy.org/Life+Stages/Entrepreneurs/>

**The IRS Small Business website** has useful information on taxes, employees, and record keeping.

<http://www.irs.gov/businesses/small/article/0,,id=99336,00.html>

and of course contact me by e-mail at [CarolToppCPA@zoomtown.com](mailto:CarolToppCPA@zoomtown.com) if you have any questions.

## Checklist for Starting a Small Business

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- Apply for an EIN (Employer Identification Number) at [www.irs.gov](http://www.irs.gov).
  - If you are a sole proprietor with no employees, you do not need an EIN.
  - You will need an EIN if you have employees or collect sales tax on product sales.
  - Some banks want businesses to have EINs to open bank accounts.
- Select a Business Structure
  - Sole Proprietorship is easiest to form. No paperwork!
  - Partnerships must have a partnership agreement
  - Corporations are issued by the state
  - Limited Liability Corp (LLC) or LLP are helpful if you have liability concerns.
  - Owners have limited personal liability for the debts and actions of the LLC
- Choose a Tax Year
  - Calendar year the simplest
- Choose Your Accounting Method
  - Cash is easiest to understand. Income is accounted for when the cash arrives.
  - Accrual accounting is required if you have inventory. Income is accounted for when earned, even if you haven't been paid yet.
- Hire Employees
  - Have them fill out I-9 for immigration and W-4 for tax withholding
- Pay Your Taxes
  - Income Tax
    - Sole Proprietorships pay taxes on **Schedule C** attached to their 1040.
    - Federal tax is a pay-as-you-go system, so you may want to make quarterly payments if you are profitable. Use Form 1040ES (Estimated Taxes)
  - Self-Employment Tax (another name for Social Security and Medicare).
    - As a sole proprietor, you pay "both halves" of Social Security & Medicare, employee and employer shares, for a total of 15.3 % of your profit. Use Form 1040SE and attach to your 1040.
  - Employer Taxes if you have employees
    - If you hire employees you will have to withhold Federal Income tax (according to their W-4 requirements), Social Security and Medicare and Federal Unemployment taxes. There are also State and City tax withholdings, State Unemployment tax and Workers Compensation taxes

## Record keeping for Small Businesses

Your books must show your gross income, as well as your expenses. You need these records for tax purposes and so you know how the business is doing financially. There are three important types of record you should keep.

- 1) For most small businesses, the business **checkbook** is the main source for entries in the business books. Keep your checkbook statements, canceled checks, and deposit slips. Use duplicate checks.
- 2) **Supporting documents** include sales slips, paid bills, invoices, receipts, and credit card sales slips. These documents contain information you need to record in your books. Organize them by type of income or expense.
- 3) Keep copies of everything you mail to the **IRS or state or city government**.

### Bookkeeping System

The single-entry system of bookkeeping is the simplest to maintain. Keep a page for each month. Have 4 columns:

Date  
Description  
Income  
Expense

Total Income and Expense columns each month. This record keeping is very helpful for tax purposes. You can also monitor your business every month for performance.

Month of: January 2005			
Date	Description	Income	Expense
1/4/2005	Postage		\$ 12.00
1/10/2005	Client X income	\$ 50.00	
1/25/2005	Web site monthly fee		\$ 19.95
1/30/2005	Consult with accountant		\$ 55.00

### To Do One a Monthly Basis:

1. Total up all income.
2. Total up all expenses.
3. Calculate Net Profit.

### To Do on a Quarterly Basis:

1. Total Monthly Net Profit for the quarter.
2. Pay Self Employment tax if Net Profit is more than \$400
3. Pay Federal Income Tax if Net Profit is more than \$5,000

### To Do on a Yearly Basis

1. Fill out Schedule C (Net Profit from Business) attach to your 1040
2. Fill out Schedule SE (Self Employment Tax) attach to your 1040.

## List of common deductible expenses:

- Advertising and promotion, including charitable contributions that result in publicity for the business. Include flyers, business cards, yellow page ads, newspaper, magazine, and radio ads, signs, billboards, and brochures.
- Accounting and bookkeeping fees including the portion of your tax return preparation fee that includes your business return
- Bank service charges including safe deposit boxes, bank overdraft fees, check printing, etc.
- Car and truck expenses. Mileage is deductible at a rate of 40.5¢/mile for 2005. Don't forget the miles you drive on errands such as picking up office supplies and going to the post office.
- Contract labor, including subcontractors and consultants.
- Credit card annual fees for cards used in your business. If your card is used partly for business and partly for personal expenses, pro-rate the fee accordingly.
- Computer supplies, printer ink cartridges, RAM upgrades, etc.
- Delivery costs. The costs of shipping your product or delivering your service is deductible as well as shipping you pay on purchases.
- Depreciation on business furniture and equipment and vehicles. See an accountant about this first. There are options of either spreading the cost of the asset over several years (depreciation) or taking the deduction all in one year. It can also be confusing to determine if a purchase is an asset or just a normal business expense.
- Dues and fees to belong to professional associations.
- Education, including seminars and conferences that increase your knowledge and skills. You can't deduct the cost of education that prepares you for a new line of work.
- Employee pensions and benefit programs
- Entertainment and business meals (these are 50% deductible)
- Equipment, including computers (see information about depreciation.)
- Furniture for your office or home office. Sometimes an asset to be depreciated, sometime a simple expense if it's small.
- Gifts to business associates or clients (up to \$25 per person per year is deductible)
- Home office expenses, if you qualify. You can take the deduction if you have a space in your home that's used regularly and exclusively for business. If you claim the deduction, the business percentage of all related expenses (i.e. insurance, real estate tax, mortgage interest, rent, maintenance, etc.) can be taken.
- Insurance. This includes liability, malpractice, business overhead, workers compensation, and other business-related insurance.
- Interest on business credit cards and loans.
- Internet access charges/on-line charges:
- Legal and professional fees, including costs for preparing the business portion of your tax return
- Licenses and fees. Any license or regulatory fees paid to governments as part of your business are deductible.
- Magazines and books that you read to enhance your business.
- Maintenance and repairs on equipment and office or store space
- Office supplies like staplers, calendars, letter trays, paper reams, etc. are all deductible.
- Online fees, based on the percentage you use the Internet for business
- Parking and tolls. Don't forget to include the amount you spent on parking meters.
- Payroll taxes that you pay on behalf of your employees (not the taxes that are withheld from your employee's pay checks.)
- Postage, delivery, and freight costs. Stamps are deductible.
- Printing, copying, and fax charges.
- Rent of equipment and store or office space
- Repairs and simple maintenance of business: This is an area where you need to talk to an accountant to make sure you are not deducting a capital expense that should be depreciated.

- Subscriptions: just like educational expenses, subscriptions to informative magazines are deductible.
- Small furnishings and equipment
- Small tools
- Telephone: Monthly service charges are deductible only if you have more than one phone line in your home. Long distance business calls are deductible.
- Travel for business, including costs to go to seminars and conferences. Deductible travel costs include hotels, airfare, taxis, car rentals, tips, and so on. These expenses are 100% deductible. Travel meals are only 50% deductible.
- Uniforms or special work clothing (i.e. steel toed boots or coveralls)
- Utilities including electricity, water, gas, etc.
- Wages: Wages paid to employees are deductible. Consult an accountant if you have employees, because there are lots of tax issues.

## Buying Property or Equipment

If you buy property with a useful life of more than one year, it is treated differently than day-to-day expenses. It is called a *capital expense* because it has a life of more than one year. The expense may be deducted over several years. This is called *depreciation*

The property can be anything tangible and used for business like, cell phones, buildings, cars, machinery, computers, equipment.

The method for depreciating an item depends on its useful life. The IRS has tables to determine “useful” life.

The IRS also lets a business owner deduct up to \$100,000 of business property in the year its was purchased. This is called a *Section 179 Deduction*

Use IRS Form 4562 Depreciation to calculate depreciation or the Section 179 deduction

Keep records on:

- Property or Equipment Purchased:
- Purchase Date:
- Cost including shipping and sales tax:
- Percent used for business:

Date purchased	Description of Property	Purchase Price*	Percent Business Use

\* Include shipping and sales tax

# Sole Proprietor Small Business Expenses

Use this form to help summarize your small business expenses for tax preparation.

## Legal and Professional

Tax Preparation

## Car Mileage

Business Miles

## Office Expenses

Postage

Office Supplies

Software

## Taxes and Licenses

Vendor's License

Sales Tax

## Cost of Goods Sold

Value of Inventory at Beginning of Year	<input type="text"/>
Purchases	<input type="text"/>
Items purchased for Personal Use	<input type="text"/>
Value of Inventory at End of Year	<input type="text"/>

## Travel, Meals & Entertainment

Travel (hotels, etc)

Meals

x 50% =

## Utilities

Cell Phone

x \_\_\_\_\_% business use =

Internet

x \_\_\_\_\_% business use =

## Other Expenses

Bank Charges

Professional Societies

Books, Magazines

Gifts to Clients

Insurance

Advertising

Other:

## Equipment Purchases to be Capitalized

(used more than one year like computers, furniture, etc)

Item	Date purchased	Cost
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>



## Ohio Specifics

Sales Tax. If you make retail sales of tangible, personal property in Ohio, you must obtain a vendor's license, collect and remit sales tax to the Ohio Department of Taxation usually monthly. Some services are sales taxable in Ohio including, lawn care, computer information services, janitorial and extermination services.

You can get a vendor's license (cost \$25.00) at [www.tax.ohio.gov](http://www.tax.ohio.gov), or your local county auditor's office or by calling 1-800-282-1782. The Form ST-1 is for a regular vendor's license, the most common license.

You can get Sales Tax forms by calling 800-282-1782. Visit [www.tax.ohio.gov](http://www.tax.ohio.gov) or call the Business Taxpayer Services line at 888-405-4039 for tax rates, FAQs, forms and information.

Keep good records on the amount of sales and amount of tax charged. The state sales tax is currently 5.5%. County and regional transit sales tax vary and may go up to 1.5% for a combined sales tax maximum of 8.5%.