



C. JAY HELM & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

TAX ASPECTS

of MANAGING

A SMALL BUSINESS

Objectives

To provide a basic understanding of the following:

- Keeping adequate documentation on an ongoing basis

Income

Expenses

Mileage log

Objectives

- **Keeping income & expense information**
 - # 1 Computerized spreadsheet**
 - # 2 Handwritten spreadsheet**
 - # ? Worst but common: The dreaded shoe box**

Objectives

- Reason to be picked for IRS audit
- What to expect in IRS audit
- Reasons to hire outside representative for audit
- Common issues selected for audit

Success in Decision Making

Proper Planning

+

Recording Income & Expense

+

Analysis of Data

Need to Know

- Actual cost to start business
- Cash needed for expenses
- Reasonable income and expenses till business pays it own way
- Choice of entity

Choice of Entity

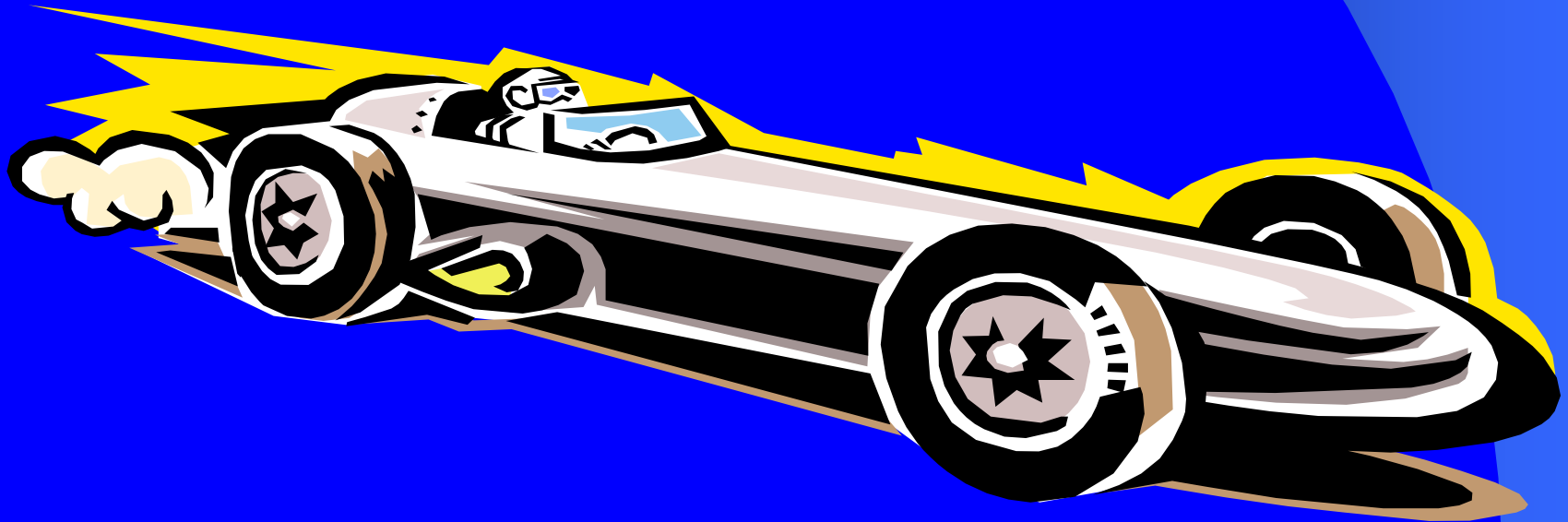
- Schedule C
- Sole proprietorship
- LLC
- Small business corporation
- Subchapter S corporation
- C corporation
- Partnership
- Pros and cons of each entity choice

Income

- **Deposit all income into business accounts**
- **Deposit all personal funds into personal accounts**
- **Separate business/personal accounts save on your cost for accountants**

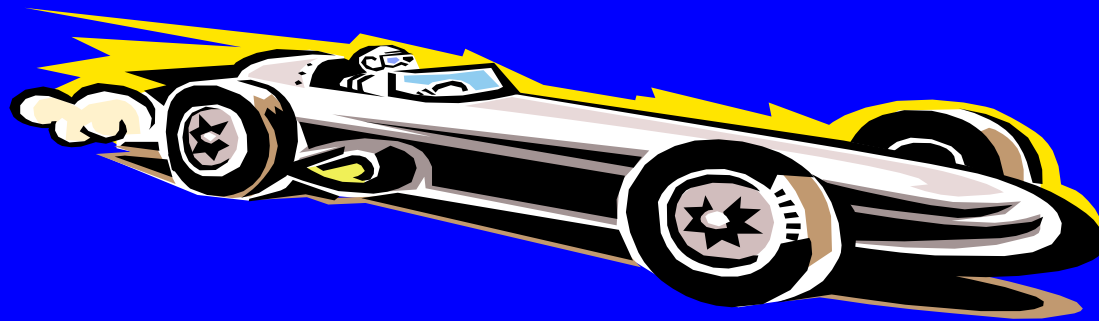
Mileage Log

- Keep daily
- Show all business miles
- Show to and from where



Adequate Documentation

- Income
- Expense receipts
- Mileage log



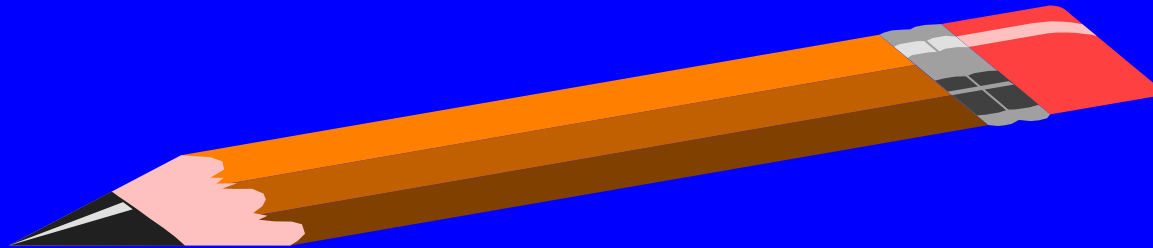
Records?

- # 1 - Computerized spreadsheet
- # 2 - Handwritten spreadsheet
- Worst and most common – shoe box or paper sack



Income Records

- Keep monthly, by account(s)
- Hardest item to prove in audit



Expense records

- Keep on a monthly basis
 - By type and
 - By vendor
 - i.e. Sprinkler Heads,
supplier name in monthly
order

The IRS Audit

- Usually - income too low for personal expenses
- Reasons IRS starts audits
 - Random sampling
 - Deviation – $1 \text{ expense} \div \text{income}$
 - Disgruntled employee
 - Compliance audit

Expectations of IRS Audit

- **Time**
- **Place**
 - **Office – TCO**
 - **Field – Revenue Agent**
 - **Tour of business**

Common Issues

- Car and truck expenses
- Commission expense
- Contract labor expense
- Meals and entertainment
- Cost of goods sold
- Supplies

Best Practice

- Hire a specialist to represent you
 - CPA
 - Enrolled Agent

Why Hire Rep?

- **Work directly with IRS daily**
- **Aware of income tax law**
- **Understands how IRS thinks and their audit methods**
- **Knows alternative ways to document if absolutely necessary**

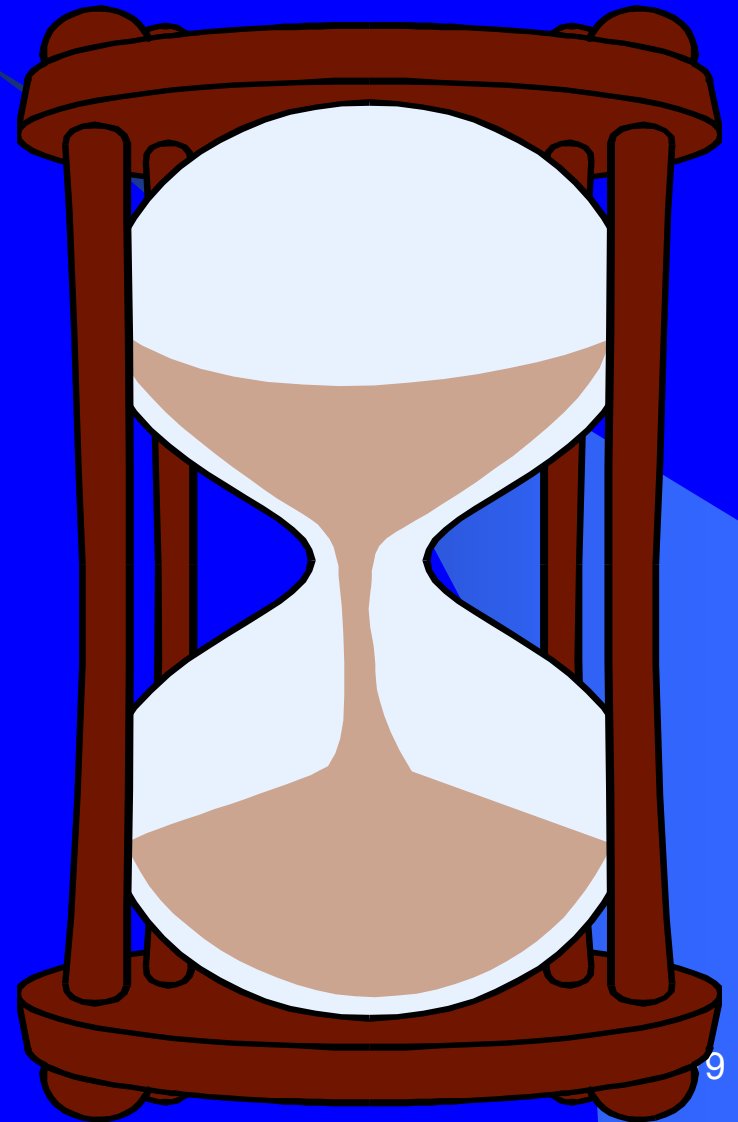
Questions?

- For questions

Stop by

Booth 716

in Lounge Area



towtrc.state.tx.us

**Text should be available
by close today
or soon after**