

Affordable Accounting and Escrow Services

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Starting a new business

Main topics of concern:

- How to set up the business
- How to keep track of financial information

How to set up the business.

- There are several steps to setting up a new business, but before any of that can be done, you must decide how your business will be structured. Couple of options below:
 - LLC
 - This is a very popular option, although it is rarely the best for tax purposes.
 - Provides some legal protection of assets from lawsuits
 - Every dollar you make is subject to income tax and self-employment tax
 - Overall, good for small/part time business without a lot of income
 - All income flows through to the personal tax return of the owner
 - Partnership
 - Very similar to an LLC in its taxability, all income hits income tax and self-employment tax
 - Good option for a small business with more than one owner.
 - Also provides legal protection of assets
 - All income flows through to the personal tax return of the owners
 - S Corp
 - Provides greater protection of assets against lawsuits
 - Provides a distinct tax advantage. Income only hits Income tax. Owners must report a reasonable salary. The salary amount is the only part that hits self-employment tax
 - Can offer substantial tax savings. The higher the income, the more the savings.

- Owners are issued a W2 based on the level of participation in the business
 - Balance of net income flows through to the personal tax return via a K1 and only affects income tax.
 - Example: Business with net profit of \$100,000 with one owner, Single no dependents
 - LLC total tax = \$27,024.00
 - S Corp total tax = \$19,061.00
 - Total tax savings \$7,963.00
 - Example #2: Business with net profit of \$25,000.00 one owner, single no dependents
 - LLC total tax = \$4,864.00
 - S Corp total tax = \$2,425.25
 - Total tax savings \$2,438.75
 - There is more record keeping involved in an S corp.
 - Must file its own tax return
 - Must file quarterly payroll tax reports
 - Owners pay unemployment on themselves. About \$300 per year
 - Reasonable salary is based on income. If records are not kept up, no idea what a reasonable salary is.
 - For what our firm charges, if you are not saving at least \$1,000 it is not worth it. In example # 1 it is definitely worth it. In example #2, maybe not. This is why S Corps are better the more your net income is.
 - S Corp election cannot be done retroactively. So, you can't wait until the end of the year, see how much you made and then decide. You must take an educated guess at how much you expect to make. If S Corp is best it must be done BEFORE the income is earned.
- C Corp
 - C Corp are good for large scale businesses. C Corporations pay their own tax. Any distributions from a C Corp are taxable to the recipient and not a write off for the company, so income is essentially taxed twice.
- Tax benefits are only one factor in determining what the best company structure is for you. There are also potentially legal ramifications, especially in certain industries. Consult an attorney for those details
- Once you have decided how your business will be structured:
 - www.sos.state.co.us. This is the Secretary of State website. You will need to register your business
 - www.irs.gov. This is the IRS website. You will likely need an EIN (Employer Identification Number) for your business. You can get an EIN if even you don't have any employees. For a LLC, this will prevent you from having to give out your social security number to anyone who pays for your services.
- Keeping track of your business
 - The main concern is keeping financial records for the purposes of income tax reporting, proving income for any loan applications, etc.

- If you choose to do this yourself, the most user friendly, widely used software available is QuickBooks. There are basically two versions, online and desktop
 - Online
 - Online is beneficially if you NEED mobility.
 - It is more expensive than the desktop version
 - It is not as user friendly as the desktop version.
 - If mobility is vital to your business, then online is the way to go. If not, you will probably have an easier time with Desktop
 - Desktop
 - Desktop can be bought online or at almost any big box store.
 - If you are processing payroll, you will need an additional payroll subscription to go along with your software. This is about \$200 a year. Our accounting firm includes the subscription for free with our payroll processing services.
- If you are processing payroll, consult with an Accountant. Payroll and Payroll tax reporting is a mine field of rules and regulations. You are deducting money from your employees' paychecks for their taxes. If you don't pay those taxes timely (or at all) the IRS can come after your personal assets to recover those funds. Payroll taxes are called "Trust Fund" taxes; one of the few classes of liability that can pierce the legal protection provided by the business. Owners are personally responsible for these funds.
- If you have employees, you will need to have Workman's Compensation insurance. Please contact your local insurance agent for more information.
- There is a large variety of software options available for Point of Sale (processing your daily transactions with customers) Time tracking (for scheduling and planning). Which software is best depends on your industry and specific products/services provided by your business.
- Additional questions/concerns:
 - What is the difference between an Accountant and a CPA?
 - CPAs can represent you in IRS tax court
 - CPAs can provide audited financial statements
 - Accountants are generally more affordable.
 - My favorite example of the difference is a certified electrician and a master electrician. If you are doing some repair work on your home or office, you are covered hiring a certified electrician. If you are building a multi unit apartment complex, you probably want a master electrician.
 - Most Accountants, including myself, will refer to clients to a CPA if they feel the clients need that extra level of certification. Most small to medium sized business are served well by having an Accountant do their books. They are more affordable and the level of education required is not extensive.
 - If I do my own books, how often should I have an accountant review them?
 - In my opinion, every three months. An Accountant can see how you are recording things, offer some advice and training on areas that you are not aware of.