

# **Accounting & Tax Requirements for a Small Business – Sept 2014**

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## **Advice:**

Treat your business like a business. Learn the basic terminology and practices. Records that are required are your cancelled checks, monthly credit card statements and cash receipts. You can keep your records on paper and/or on a computer, but it is important to organize yourself and keep records. If you are using a computer, create and implement a regular data backup system. Create a credible Business Plan. I have included an outline below. Open a separate bank account for your business and designate one credit card for exclusive business use. Keep a cash ledger with accompanying receipts for cash expenses. If the expense is under \$25.00 USD you can just note it in the ledger, including the date, amount and business purpose.

Do not be tempted to label personal expenses as business related expenses. Such expenses include personal grooming expenses, travel and clothing. There are specific rules created by Congress and described by the IRS that must be met in order for an expense to be a business deduction. Ask your tax preparer for specific guidelines.

## **Organizing Ideas:**

Write on the receipt immediately. For purchases you will need the date, how you paid, and the business category. Have a pen available or ask to use one. Have an envelope in your car, planner or purse to immediately put the receipt in. Daily or weekly, transfer receipts to your accounting program (paper or computer) and then file the receipt in an envelope or folder.

When ordering products from doTERRA, print out the order sheet and immediately write on it who the product is for. You will know if it is for personal use, for samples or for sale. If you have people purchasing products from you for their use, you must have a WA State business license, charge the appropriate sales tax and file state excise tax returns to remit the sales tax and potentially pay B&O tax. If you are selling wholesale to another person, you must get a copy of their resellers license, or you have to charge sales tax. **MY ADVICE IS TO LET DOTERRA MANAGE THE SALES ON THE WEBSITE FOR YOU.** You then are not required to have a business license or handle sales tax.

Create a business accounting filing system - can be a "shoe box" or plastic file box or even a cute office organizer, but do something. Basic would be Customer lists, Contact History list, Organization Chart/List, Product Orders and Shipping Lists. Keep all your e-mails as a record. Create a separate folder in your e-mail program for business related e-mail.

Create a separate Presentation/Sales notebook and file box. Put your oils in a box and label them. Have everything in a plastic bin to easily transport. Print out the webinar information and put into a notebook.

**Avoid Common IRS and State Audit Traps** - It is very important to be aware of potential red flags which include:

- **Classifying Employees as Independent Contractors** – Independent contractors and employees are not the same and it is important to understand the difference. In the eyes of the IRS, misclassification can be seen as an attempt to avoid payroll taxes; non-compliance can bring penalties and back taxes. Be sure to file all 1099's/1096's if you pay someone over \$600 annually. It is best to get them to fill out an IRS form W-9 when they start work. You can print them out from the IRS. The IRS has a check-list of over 20 things that separate an employee from a contractor. Be sure that you are compliant.
- **Home Office Deduction** – This deduction is very specific and not all home-based businesses qualify. Know how to determine if you are eligible to claim this deduction and what specific expenses may be deducted.
- **Larger Miscellaneous Deductions** – If you claim a large amount of miscellaneous expenses, relative to your income, the IRS could get suspicious. Be specific and label every deduction in a specific category.
- **Keep Business and Personal Expenses Separate** – The IRS scrutinizes personal expenses that may have been claimed as a business expense, such as the use of a business vehicle, for personal use. Maintain separate bank and credit card accounts for your business and personal use. Be diligent about keeping good records. For additional information on these tax tips and current year tax deductions visit the SBA Small Business Tax Guide (<http://www.sba.gov/category/navigation-structure/starting-managing-business>) or contact the IRS at [www.irs.gov](http://www.irs.gov)

### Simple Example of a Business Plan Outline

1. **Executive Summary:** Write this last. It's just a page or two of highlights.
2. **Company Description:** Legal establishment, history, start-up plans, etc.
3. **Product or Service:** Describe what you're selling. Focus on customer benefits.
4. **Market Analysis:** You need to know your market, customer needs, where they are, how to reach them, etc.
5. **Strategy and Implementation:** Be specific. Include management responsibilities with dates and budgets. Make sure you can track results.
6. **Web Plan Summary:** For e-commerce, include discussion of website, development costs, operations, sales and marketing strategies. doTerra provides this, but you must explain it.
7. **Management Team:** Describe the organization and the key management team members.
8. **Financial Analysis:** Make sure to include, at the very least, your projected Profit and Loss and Cash Flow tables.

I don't recommend developing the plan in the same order you present it as a finished document. For example, although the Executive Summary obviously comes as the first section of a business plan, I recommend writing it after everything else is done. It will appear first, but you write it last.

### Look at the Seahawks – Running Your Business can be like Coaching a Football Team

You may not have noticed, but football coaches and small business owners have a lot in common. Both professions require leadership, dedication, commitment and a strong work ethic in order to succeed. Just like football coaches, as a small business owner, you must take on many roles to ensure everybody is working together as a team to achieve important goals and operations run smoothly. Here are a few other ways football coaches and small business owners play a similar game.

#### Pre-game

To prepare for a football game, coaches research opponents, develop game plans and determine the best lineup of players who will help the team win. Similarly, when starting a small business, entrepreneurs [conduct market research](#) to understand the competition and the key economic conditions and indicators. Entrepreneurs also [build a business plan](#), which sets the strategic framework for the organization and maps out the path forward. In addition, small business owners find top talent who will help them execute the plan and beat the competition.

#### During the game

Over the course of a game, head coaches make adjustments regularly, shifting tactics to put their team in position to score and win. They consult with assistant coaches to get advice on what plays they should run. Entrepreneurs also make strategic moves to adjust to constantly changing market forces and customer demands. You can get guidance on how to set themselves for success by consulting with experts.

#### Halftime

Coaches typically deliver inspiring halftime speeches that motivate players to give their all and function as a team. *You* motivate yourself and your associates by providing support and encouraging career growth through training that will help strengthen skills. Small business owners also foster teamwork by clearly communicating the importance of each person's role in reaching a shared objective.

#### Post-game

Following a game, coaches review footage to analyze which plays and strategies did or did not work and what improvements the team can make to defeat the next opponent. At the end of each day or period of performance, entrepreneurs crunch numbers to determine how well the business performed and identify ways to boost profits, cut costs and improve customer service.

In coaching, the job doesn't end just after one game or one season. The same can be said for entrepreneurs who work hard every day to pursue their dream of starting, managing and growing a small business. GO HAWKS!

**Basic Profit and Loss Expenses List (not inclusive)**  
*These expenses are deducted on your federal tax return.*

**Revenue:**

Gross Income from Sales of Products  
Gross Income from Commissions

**Cost of Goods Sold:**

Purchases, including shipping on these purchases (not including personal use or samples expense)

**Gross Profit = Revenue less Cost of Goods Sold**

**Operating Expenses:**

Accounting Expense  
Advertising Expense  
Automobile Expense (keep a mileage log and actual expenses, i.e. gas, insurance and repairs)  
Bank Service Charges - also fees for credit card processing  
Cleaning Expense  
Commissions Expense - commissions paid out to others  
Contract Labor Expense - be careful of this one. A big audit category for both state and federal agencies.  
Dues Expense  
Education, Conferences and Workshops Expense  
Entertainment & Meals Expense  
Equipment Expense - need date, item description and amount for each item.  
Furniture Expense - need date, item description and amount for each item.  
Home Office Expense - calculated on business percentage use of your home. Total sq. foot of business use / Total sq. foot of home - interest, taxes, insurance & utilities (not including phone)  
Insurance Expense - business insurance, not medical or home  
Interest Expense - finance expenses on business related debt  
Internet Expense  
Laundry Expense  
Legal Expense  
Office Expense  
Outside Services Expense  
Parking and Tolls Expense  
Payroll Expense - including wages paid and payroll taxes paid  
Printing Expense  
Postage Expense  
Promotion Expense  
Publications and Subscriptions Expense  
Rent Expense  
Repairs Expense- for both personal property rental and office space rental  
Samples Expense - for samples given to clients (not including personal use)  
Security Expense  
Shipping Expense  
Supplies Expense  
Telephone Expense - cell phone, long distance, and additional dedicated home phone lines  
Taxes Expense - sales tax, state excise tax, city taxes  
Tools Expense - need date, item description and amount for each item.  
Travel Expense - lodging, car rental and incidentals (not Entertainment & Meals Expense)  
Utility Expense - (not phone or office in the home utilities)

**These added together = Total Operating Expenses**

**Net Income from Operations = Gross Profit less Total Operating Expenses**

**You can find additional information on line: Federal - [www.irs.gov](http://www.irs.gov), State - [www.dor.wa.gov](http://www.dor.wa.gov)**

**You can always hire professionals like me who have the expertise to help you.**