REI Mastery U

GETTING STARTED

RUNNING YOUR LLC

A GUIDE TO MAINTAINING YOUR LLC

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GETTING STARTED

in

CORPORATE GOVERNANCE

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PRELIMINARY NOTES

Thanks for taking some time to read through this Getting Started eBook. Corporate governance means properly running the LLC you've already established. We've organized it in a simple format to be used as a reference tool. You should also keep this eBook readily available for future reference.

If you need additional information on LLCs, please watch "The 3 LLCs Used in Real Estate" video on our website and our Public Library that has a number of "Quick Vids" on LLCs and corporate governance topics. You should also consider joining our Professional Investor online program or our Mastery Coaching Programs for even more REI help.

Happy Investing!

Jeff

PART 1: COMMON CORPORATE MISTAKES

Most people file papers to establish a business entity for two reasons: personal liability protection or tax advantages.

A Limited Liability Company ("LLC") offers protection in two directions. It can shield its owners' personal assets (like family home, savings account, jewelry, stocks) from lawsuits against activities within the business and business creditors. It can also protect assets owned in the LLC (like rental properties) from outside personal liability of its owners.

But this protection can be easily lost. A court can "pierce the corporate veil" when it finds that the company was nothing more than an "alter ego" of the individual owners, and thereby attach your personal assets to the judgment, or force a liquidation of the assets in the LLC to pay damages.

Therefore, you must always maintain a separation between "you" and your "business". This is why it is extremely important to do everything "by the book" even if you are the sole member of the company.

The second reason brings up the issue of an IRS audit. This is not (usually) a court case, and there is no judge. But, to take advantage of the tax benefits afforded to companies, the IRS will ask the same questions a judge does to verify that your company is truly being maintained as an actual company in an audit. If the IRS determines that it's not a "company", then it won't allow the deductions and other benefits afforded to true companies. You may have to pay back taxes, interest and penalties. Fraud can also be a possible outcome.

Most small business LLCs are closely held companies with a small number of members (very often family). Since these companies are sometimes fraudulently used, they can become targets of the IRS. They are also the first to lose corporate protections in court cases. Please be aware that just filing corporate papers with the State is <u>never</u> enough to establish your corporate identity. A court will look at everything and make a determination based on the totality of the circumstances. Therefore, you must be aware of the following factors:

1. You've formed the appropriate entity with the correct organizational structure.
2. You have all the necessary corporate documents.
3. You've properly funded (transferred assets) to the company.
4. You are running your company under the dictates of the operating agreement and all applicable laws.

This final factor is one of the most important. REI Mastery U helps its students not just in setting up their company, but also in maintaining it. We do offer coaching packages at affordable rates. So you can have an attorney at your side. Please contact our office for more information on how we can help.

The following are general guidelines to help you run your company by the book. It is a list of common pitfalls new business owners fall into. It is not a replacement for legal or accounting advice. Please consult an attorney or accountant if you have any specific questions.

1. Failing to separate the "Company" from the "Individual". This is the way many owners of companies lose their corporate protection. Be sure to always conduct "company" business in the name of the company and "personal" business in the name of the individual. All the other common mistakes merely extend this basic idea.

In an LLC, the owners are called "members" and the business is called a "company." This is not to be confused with "shareholders" or "corporations." The LLC may authorize other titles such as president or secretary, although this is not required and not as common.

You may also have an appointed "manager" of the company. This manager runs the day-to-day operations. You might be both a member and a manager.

As all LLCs are either "Manager-managed" or "Member-managed", it's important to know the difference.

In a <u>Member-managed LLC</u>, the members (owners) themselves run the day-to-day operations as well as the bigger issues that are reserved for members (like amending the Operating Agreement). <u>The rule is that ALL members must act to bind the company</u>. That means all members must sign things. This becomes overly burdensome for most businesses. We don't establish a lot of LLCs this way. Most are manager-managed.

In a <u>Manager-managed LLC</u>, the authority to act on behalf of the company is vested in a named manager. You can have one or more managers. But, for convenience, we usually recommend just one. Then, that one manager can do the day to day stuff for the company, relieving the other members of the burden. Also, since you're acting as the manager, you do not need to ever divulge who the actual members are—even when it's you! This provides a lot of privacy.

Remember that bigger issues (like amending the Operating Agreement, merger or dissolution of the company, etc.) are still handled by all the members. Company meetings are also held by the members.

A member can also be a manager, or you can hire someone who isn't a member to run the daily operations. If you are a member and a manager, then you wear TWO hats, and you have to remember which hat you're wearing. But it's not that hard. If you have more than one manager, you will need to decide if it requires all managers to sign things, or just one.

2. Failure to Identify Ownership. To third parties, always represent yourself and company under the company's persona. Always state your title and company name, both verbally and on business cards and stationary. Also, purchase or transfer the ownership (or title) of all company assets in or to the name of the company. This includes bank accounts, real estate holdings, insurance policies, utilities for offices and all contracts. This is called "funding the company" and creates official documents of the ownership and existence of the corporate identity.

Always sign documents on behalf of the Company. When signing internal documents, like meeting minutes, you can sign in your capacity, usually as a member. When signing contracts with others, you should sign your name and underneath print your name and title. Your title will be "Member" or "Manager", depending on how your LLC was set up (most likely manager). Then, under your name and title, print the name of your company with the "LLC" after it. For example:

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By: Jeffrey S. Breglio, Manager
For: Best Rentals, LLC

If your company is owned by another entity or a trust and you're not signing as a manager, then some human representative of the entity-owner must sign on behalf of the member who is signing on behalf of the company. For example:

____

By: John Doe, Trustee of the John Doe Family Trust, Member
For: John Doe's Burgers, LLC

This can seem burdensome, but you have to represent your company accurately. This is why most LLCs appoint a "manager" even when that person is also a Member. It just makes things easier to run.

3. Co-Mingling Funds/Assets. This is probably the biggest mistake small business make and the easiest to discover because there is a paper trail. Learn to keep business and personal issues separate. So, we've created a list for you.

a) Never mix business and personal money or holdings! Always keep separate bank accounts. This means do NOT pay personal expenses with business money, and do NOT pay business expenses with personal money.

b) Remember how to put money in and take money out of the business account. See below on "Contributions" and "Draws".

c) You can do online transfers between the two accounts if they are at the same bank. Make sure you note what you're doing and why—whether it's a contribution or a draw.

d) If you’re paying a third party or other business expenses, then use bill pay or a dedicated credit/debit card from the business account. Cash becomes very difficult to track and is highly scrutinized.

e) Never purchase anything for personal use with company funds! The IRS auditors love to find these transactions.

f) Never use any company assets for personal use except with advance, express, written authorization from the company.

g) Apply for a business credit card in the name of the company. It’s OK if you have to personally guarantee the card. But most banks will give you a dedicated card. If you must use a personal card, then make sure you clearly distinguish business from personal and pay each with separate checks.

h) <u>**Rule of thumb**</u>: Pay all business bills with business money. Pay all personal bills with personal money. How do you know the difference? Look at the name on the bill. If the bill comes in your personal name, then it’s a personal debt—pay it with personal money. But wait, what if it’s a legitimate business expense, like my cell phone? Pay those kinds of bills with your personal money, then create a simple Reimbursement Form that you, as the member of the company submit to the company to be reimbursed. The company can then reimburse you. Keep these forms in your corporate records.

   <u>The one exception to the Rule of Thumb</u>: In real estate, your mortgage (which will be in your personal name), property taxes, insurance and utilities can be paid directly from the company account that owns the properties. This is because those bills are tied to the property, and the property is owned by the LLC. Some utilities can be put directly into the LLC’s name; others can’t.

i) Do not fall into the trap of “I’ll pay myself back later” or “I’ll reimburse the company”! You won’t. Do it right from the start, and keep doing it right.

<u>Contributions</u>: When your company needs money, then the members make what is called a contribution. MEMBERS make this contribution. So, you have to remember who the members are. If you need money from someone who isn’t a member, then it’s probably going to be a loan.

<u>Distributions</u>: When you need to take profit out of the company, it’s called a distribution (or a “draw”). Only MEMBERS get a distribution. If the company makes a distribution, then ALL MEMBERS must get a distribution in proportion to their percentage ownership. You cannot make a distribution to someone, say a child, unless that child is a member!

Salary: You can pay yourself, or any employee for that matter, a salary or wage. If you have an “S” elected LLC, you MUST pay someone a salary and it must be a W2 wage done by a payroll company! Remember that salary is different than a distribution, and they are taxed differently. You can pay employees a 1099 or W2 wage.

Please check with your accountant on how you are taking distributions, wages and salaries.

4. Not Keeping a Paper Trail. Keep a written record of every single transaction! This includes purchases under $50! Normally checks are preferred over electronic or automated payments. However, this way of transferring money is becoming commonplace and acceptable. Print receipts if you do utilize online payments. Keep retail receipts of every purchase (do not rely on bank/credit card statements!). Keep utility, insurance, mortgage, etc. receipts. Keep ALL documentation FOREVER. You may also want to consider keeping a second copy of all written documentation if a safe deposit box or second location. Homes and offices do burn down. With the “cloud”, there are many inexpensive ways to store files securely.

5. Failure to Keep Up-to-date Corporate Records

a) First, you must maintain all your corporate licensing documents. This includes filing all the proper documents and paying the fees with the city and state. Companies will be automatically dissolved for failure to do this. The state will send renewal notices to the “Registered Agent” NOT the company. If that’s you, be aware of this paperwork. Many companies hire a registered agent (like an attorney) to make sure this is done. Breglio Law Office can be your registered agent and take care of the renewals for you for a small yearly fee!

b) Second, you must keep accurate and timely corporate records. This means all meetings, minutes, resolutions, decisions, etc! Yes, you must hold actual meetings and record what happened! The key is to really hold these meetings and keep a detailed record. It may seem funny to hold a meeting with yourself, but this is where many single-member companies lose their protection! The record book should be bound, hardcopies with handwritten notes if necessary (initial and date any changes). Computer records can be easily altered and are thus more suspect.

Breglio Law Office offers many consulting packages that help you hold meetings, produce minutes signed by an attorney, and maintain your business legally. Please visit our website or contact our office for more details.

6. Not Running the Company by the Operating Agreement. You should have a written and signed “Operating Agreement” for your LLC. This document establishes your company’s identity and details how the company is to be run. It also establishes the relationship among the members if there is more than one. This is a crucial document. It will be the very FIRST document a court will ask for! Everybody files organization papers with the state—but that’s never enough! Meetings, voting, raising capital, loans, etc., should all occur exactly as outlined in this document. Having this document and adhering to it is one of the most important parts of maintaining your corporate identity! If you need to conduct business differently, you must make an "amendment" to your operating agreement. You should always consult a lawyer when making this kind of change to your company. Please contact our office if you require an amendment.

7. Illegal Deductions. Please keep yourself informed of all your tax liability. You should meet with a respected and qualified Certified Public Accountant. Multi-member LLCs must file federal tax returns and issue K1s to their members. Many tax advantages, like employee benefits, must be approved by the company. This means holding a meeting, proposing the benefit, approving it and recording it in the minutes. Remember that your LLC is a flow-through entity, which means the profits flow onto the personal tax return of the members. You will most likely have to pay personal income taxes and possibly employment taxes quarterly! Not everything is a write-off. Be sure your tax planning is up-to-date, legal and adequate. Check with your accountant to see if you need to pay quarterly taxes.

CHAPTER 2: Additional Potential Pitfalls

Professional Licensing: Many professional services, like attorneys, accountants, real estate agents, mortgage brokers and even hair stylists, must be licensed through the state. Not having this license can be a cause to pierce the corporate veil. Also, any employee must either be licensed or legally exempt from licensing.

Business Licensing: You should also get a business license in the city in which you are located. If you have rental properties in various cities, you may need multiple licenses. This is all based on each city's requirements. Many cities are finding that requiring rental owners to have a business license is a great way to raise city revenues, so be sure to check on this with the city where the rental is located.

Sales Tax: If you sell any retail or wholesale product, you must obtain a sales tax identification number and pay sales tax to the state.

Worker's Compensation: Workers compensation is an insurance program that covers expenses of employees who are injured on the job. All states require that ALL employers obtain this insurance coverage for their employees. If you have ANY employees, you must obtain a worker's compensation insurance policy. Paying someone on a 1099 (independent contractor) is NOT enough to prove they are not employees. Those employees can still make a claim that you were their employer! See below for description of Employee v. Independent Contractor.

Generally, members of an LLC are exempt. Having a “manager-managed” LLC can invoke the need to pay worker’s comp for the manager. If you pay yourself to manage the company, then you are an employee in that capacity.

Remember, this is paid on ALL employees. Only <u>true</u> independent contractors are not employees and are therefore exempt.

Unemployment Insurance: This is an insurance program that pays employees in the event they are laid-off from their jobs. States require that ALL employers obtain this insurance coverage for their employees. If you have ANY employees, you must pay into the unemployment insurance program with the state.

You may qualify for waivers or exemptions from worker’s compensation or unemployment insurance. Please contact your local state agency to confirm your requirements.

Wills and Trusts: Simply, a will is a document that expresses your wishes about how your assets are to be distributed upon your death, and a trust is a document that specifies how your assets are to be managed or distributed upon some guideline or occurrence (such as your death or when a child reaches a certain age). Wills are subject to probate court and taxes. However, a trust can be used to bypass probate and reduce taxes. A trust can also extend protection and benefits beyond simply forming a corporate entity or a simple will. Trusts should be considered if:

1) You own a home or business;
2) You want to be certain to avoid probate, its costs and taxes;
3) You have privacy concerns about your estate;
4) You need additional tax shelters; or
5) You want additional protection of your assets

Breglio Law Office can help you create your family estate plan. And we focus on asset protection, so we do things differently that most estate planning attorneys. <u>Please ask us for more information, or ask for our Family Legacy Guidebook</u>.

Trademark: If you are spending a great deal on a marketing campaign, you may want to consider trademarking your name and logo. This can be done both at the state and federal level. It will prevent others from taking or using your name and logo without your permission. Just because you have a name registered with the State name doesn’t necessarily keep others from using it!

Copyright: If you create any sort of art (i.e., a book, a sculpture, a non-logo graphic) as part of your business, you will also want to consider filing for copyright protection. This is done with the U.S. Copyright Office. Filling allows you to obtain additional damages if someone steals your artwork.

CHAPTER 3: EMPLOYEE V. INDEPENDENT CONTRACTOR

A comparative chart:

EMPLOYEE	INDEPENDENT CONTRACTOR
Paid W-2	Paid 1099
Does not invoice employer	Invoices employer for services
Paid on regular schedule	Paid at termination of service
Works with one employer	Works for many employers
No autonomy in assignments	Autonomous in assignments
No control over details of job	Controls details of job
Has supervisor	Has no direct supervisor
Uses employer's equipment	Uses own equipment
Works under employment contract	Works under IC contract
Long term employment	Short term contract
Lesser level of skill	Greater level of skill
Not self-insured!	Maintains own insurance!

What is the big idea? No one criterion is enough to establish the independent contractor status! The court will examine everything and utilize a "totality of evidence" standard, just like with your corporate identity. It has already been determined that method of payment (1099 v. W2) alone is NOT enough! But, the final criterion is the truest test: A true independent contractor will have his or her own unemployment and injury or disability insurance coverage. If this is the case, don't rely on the contractor's assurances—ask for the paperwork and call the insurance company to make sure the policy is in effect and the contractor is actually covered!

If the person is determined to be an employee, then YOU—as the employer—are required to carry that insurance.

This difference can also be an issue of whether you might get sued by a third party if your employee gets in an accident! You are liable for injuries caused by an employee while engaged in the scope of his or her employment.

Remember that you must send out tax forms for all employees.

Also, you must send out 1099s to any independent contractor who bills over $600 per year (although it's preferable to always send them regardless of amount billed). Check with your accountant for up-to-date rules regarding 1099s.

Chapter 4: New Business Contact Checklist – Utah

For other states, you can web search similar department names

City Business License: All businesses must register in the city where they are doing business. For Salt Lake City: 451 S. State Street, SLC. 801-535-7717. http://www.slcgov.com/buslicense.

Federal Employers Tax ID Number: IRS, 50 S. 200 East, SLC. Forms (800) 829-3676; Questions (800) 829-1040. www.irs.gov

US Department of Labor ESA Wage & Hour Division: 10 Broadway, SLC. 801-524-5706. www.dol.gov

Utah Department of Commerce: 160 E. 300 South, 1st Floor, SLC. 801-530-6701. www.commerce.utah.gov

Utah Division of Corporations & Commercial Code: 160 E. 300 South, 1st Floor, SLC. 801-530-4849. http://www.corporations.utah.gov/index.html

Utah Anti-Discrimination & Labor: Utah Labor Commission: 160 E. 300 South, 3rd Floor, SLC. 801-530-6801. http://laborcommission.utah.gov/divisions/AntidiscriminationAndLabor

Salt Lake County Business License: Dept. of Building and Housing, 2001 S. State Street, N-3600, SLC. 801-468-6700. www.slco.org

Utah State Tax Commission Withholding: 210 N 1950 West, SLC. 801-297-2200. www.tax.utah.gov

Unemployment Insurance: Utah Dept. of Workforce Services, 720 South 200 East , SLC. 801-526-0950. https://jobs.utah.gov/ui/employer/employerhome.aspx

Workers Compensation Fund: 100 West Towne Ridge Parkway, Sandy. 385-351-8000. https://www.wcf.com

Free Employer Workshops: Salt Lake Community College, 801-297-6202

Utah Division of Occupation and Professional Licensing: 160 300 South, SLC. (801) 530-6628. http://www.dopl.utah.gov

CHAPTER 5: TAX ISSUES GENERALLY

Disclaimer: The following is not to be considered a substitute for tax advice from a tax professional. Everyone's tax liability is different. Please consult your own tax advisor. What follows is a basic outline of deductions made by small business owners. It is meant to provide you with information to be a more aware business owner and is not to be considered personal tax advice.

General Tax Information: First, LLCs are not taxed as corporations, but rather as partnerships or sole proprietorships. You can, however, change this designation with the IRS if you want a different tax status with possible tax advantages. For example, we often do an "S" election so that your LLC is taxed like an S-Corp for tax savings. If this is your LLC, then you MUST file an S-Corp tax return.

Also, an LLC is a "flow-through" company. That means all net profit or loss flows through the company and onto the personal tax returns of the members. The company itself pays NO taxes. How profits and losses flow through depends on how many members there are.

Single Member LLC: For single member LLCs, the LLC is "disregarded" for tax purposes and there is no federal form to file with the IRS. Any net profit or loss is reported on the individual's Form 1040, Schedule C (usually) or, if the member is a corporation, on the corporation's Form 1120.

Multiple Member LLC: For LLCs with more than one member, the company must file Form 1065 with the IRS, this is partnership return. This form tells the IRS what portion of profits and losses go to which members. The company also issues a K-1 statement to each member which they will use to report on their own personal taxes.

There are two levels at which most small business owners are federally taxed: self-employment taxes and income taxes. After that, there are your personal state taxes. You should also be aware of payroll taxes if you have employees (employment withholding and reporting) and sales tax if you sell a product. Your tax professional can work you through all of these.

Self-Employment Tax: Most people know this tax as FICA, or the social security and Medicare tax. Here, we'll call it "SE Tax". If you've worked as an employee (where you got a W-2 statement), this showed up on your paycheck as the FICA withholding. The tax rate is 15.3%, although it can fluctuate. Your employer paid half of this, and the other half was withheld from your paycheck. You cannot avoid paying this tax (except S-Status entities, which can avoid "some" of this tax). Now that you are your own employer, you pay the entire SE tax on your net business earnings! The goal is to get your net earnings as low as possible with legitimate business deductions. Every deduction saves you money on taxes!

Income Tax: Once you've paid the SE Tax, those earnings then get moved to your personal tax form and added to any other income you have. You then have to pay income tax on that. We have a sliding scale of personal income tax that generally ranges from 10% to 35%. These rates get applied to different income levels and depending on whether you file as a single person or married filing jointly. Remember, there are personal deductions as well. Again, the higher your income is at the end of the year, the more you pay in taxes!

Note: Increasing business deductions does lower your taxable income and lowers your tax burden. But, if you are looking to qualify for a mortgage, you want to show higher income, not lower. You should discuss this with a qualified mortgage officer.

Net Revenue: Your net revenue is calculated by taking every dime you make and then subtracting every business cost and legitimate deduction for the year. On whatever that amount is on December 31, you will owe SE tax and will get added to your other income. If it's negative, you will get a tax write off.

Quarterly Taxation: Generally, all self-employed persons must pay taxes quarterly. This is analogous to the withholding of taxes on the paychecks of people employed by others. You can make estimates of what you think your tax liability will be. But, even if that liability is zero, you must still file a quarterly statement. See timeline below. You can do these payments yourself; they are quite easy. Most accountants will explain how to do so for free. But you can also pay an accountant take care of it for you. Either way, consult with your tax advisor to understand your obligations.

Chapter 6: Tax Deductions

Deductions Generally: Just about anything that is "ordinary and necessary" and "not extravagant" and "primarily for business" is deductible. Even though the IRS doesn't define these terms, it's not wise to push the envelope. Ordinary and necessary usually means "normal". Whatever is "normal" for your industry is OK. Not extravagant means not "out of proportion" to the nature of your business. If it seems "lavish" it probably is! So, don't make it. The biggest red flag, however, is claiming personal expenses as business. (See the Common Mistakes Section.)

Remember, some expenses are deducted in the year you make them; others are deducted over time. Also, deductions may change from year to year. Your tax professional will be able to give you further advice on when and how to take deductions.

Common Deductions:

1. AUTOMOBILE: You can only write off that portion of car expenses that equals the portion of use of your car for business purposes versus personal. If you have only one car, the maximum is usually 80% for business. But, if audited you will have to justify that use, whatever it is. Going to and from your office is not business use. Traveling to or from clients is. Keep track of miles. This is a record keeping! It will prove invaluable. Keep a vehicle expense log with receipts!

Once you know how much you use your car for business, you can write off that percentage of your car payments, gas, insurance, tires, licensing and repairs. The easiest way to do this is keep a record of these payments, add them up and then reimburse yourself for whatever percentage you're at. That way, the entire business expense is deductible, and you're only writing one check per month or quarter.

There are two methods for calculating the deduction: by mileage or actual expenses. Usually the actual expenses method is the bigger deduction.

You may also be able to depreciate your car and save even more. Talk to your accountant as to the best way to deduct your car expenses.

2. HOME OFFICE: You can write-off a portion of your home expenses, like utility bills, if you use a part of your home as an office. As long as you can justify that part of your home is a principal place of business, separate from other parts of the house and you use it regularly and exclusively for business, it's a deduction. Again, keep all records of your home expenses and give them to your accountant.

3. EQUIPMENT AND FURNITURE: Office computers, fax machines, desks and etcetera can be depreciated and deducted. Keep receipts of these purchases and tell your account about them.

4. RETIREMENT PLANS: Certain contributions to retirement plans are tax deductible. Your LLC can even set up its own retirement plans for its members. Please ask for our "Self-direction Guidebook" for more information on how to start your own retirement plans.

Traditional IRA: Putting money into a traditional IRA is tax deductible now. BUT, you will pay taxes when you take it out!

Roth IRA: Putting money into a Roth IRA is NOT tax deductible now. BUT, you do not pay taxes when you pull the money out! This one grows tax free. You just don't get the deduction up front.

Roth and Traditional 401K: Your new company can set up its own 401K plans for the members (you)! Our office can help with that!

Self-Direction: Many of our clients self-direct their retirement accounts to use in real estate. We help set up the IRA, LLC and Solo 401K Trust plans that enable you to do that. Just ask us how or request our Self-direction Guidebook!

For all retirement accounts, there are limits on how much you can put in each year and penalties for early withdrawal. Talk to a financial planner—there are other plans as well.

5. START-UP COSTS: You can take deductions for the cost of setting up your business. There are rules, however. Talk to an accountant.

6. PROFESSIONAL FEES and EDUCATION: Fees paid to accountants, lawyers, consultants or professional licensing (like the board of realtors) are deductible. So are expenses to keep a professional license (like continuing education). Write checks for these from your business account!

7. SUPPLIES: Duh, all office and professional supplies are deductible.

8. ENTERTAINMENT and MEALS: This can be a biggie—but one the IRS likes to look at. First, only 50% of your expenses on entertaining clients and meals is deductible! As long as the entertaining is "common and accepted" in your profession and "helpful" to your business, it's OK. Entertaining includes food, drink, amusement and recreation. Use your common sense, don't be extravagant! There are some exceptions to the 50% rule, talk to your accountant.

9. GIFTS: This is another biggie for many small business owners and the IRS. Gifts to clients are 100% deductible. BUT, only up to $25! That's a big catch! Don't exceed it!

10. TRAVEL: Everyone loves this one! Transportation, baggage & shipping, lodging, laundry and things like internet or telephone charges are 100% deductible. Meals are only 50% deductible!—same as entertaining. The IRS assumes you'd have to eat if you were at home, and home-cooked meals are not deductible. These are often scrutinized by the IRS. You should keep good records of the business you conduct while traveling. You will have to justify why it was a deduction.

You can use the Actual Expense method or the Per Diem method. With the actual expense method, just keep every receipt (like anything else). The per diem method is easier but may not save you as much. The IRS allows a certain per diem (meaning, per day) expense depending on where you are traveling. You can spend up to that amount for every day you travel as a deduction. You have to check IRS Publication 1542 to find this rate—it changes. If the rate isn't too high for your location, you might save more by keeping track of the expenses.

Travel must be for a business purpose! If you're mixing business and pleasure, then the "primary" purpose of travel must be business (not political, investment or social). If you bring the family, you cannot deduct more than if you had traveled alone! But remember, the family still only needs one car and maybe one room, which you needed anyway! The key here is to legitimize the travel, keep receipts and not be extravagant.

11. HEALTH INSURANCE: Health insurance premiums can be deductible. But, the deduction usually can't be greater than the businesses net profit AND, if you "could" be covered by a spouse's insurance program, you cannot claim your own expense. Out of pocket expenses (like your co-pay) are generally not deductible. <u>This is good question for your accountant</u>.

12. CHARITABLE CONTRIBUTIONS: Well, here the answer is NO. These are not business expenses. Only C-Corporations can donate to charity. BUT, you can deduct these contributions off your PERSONAL income. So, give to charity! Also, sometimes charitable contributions can be deemed a "marketing expense" if you use the contribution to get more business. Again, good topic for your accountant.

13. TAXES: Many types of taxes at one level are deductible on another. Make sure accountant knows what taxes you are paying (like for employees!).

14. ADVERTISING and MARKETING: Marketing costs are fully deductible. Some types are immediately deductible, others are deducted over years. Even sponsoring a sports team can be deducted! All you need is a "clear business connection" to the advertising.

15. GENERAL BUSINESS EXPENSES: This is the catch-all. Anything that is ordinary, necessary and primarily for business is a legitimate business expense. Don't forget things like internet service providers and cell-phones if you need them for business.

Chapter 7: Tax Timing

FEDERAL QUARTERLY TAXES

Q1	Due by April 15
Q2	Due by June 15 (this one is a little off!)
Q3	Due by September 15 (this one is also a little off!)
Q4	Due by January 15 (of the next year)

NOTE: S-Corps and "s-elected" LLCs <u>must</u> file their yearly corporate tax return by <u>MARCH 15</u>! This is a month earlier than your personal or partnership tax returns!

Dates are approximate depending on the day of the week the 15^{th} falls.

File even if you made no money. Just write down "0". This may be a "guesstimate" until you know more about your revenues. An accountant can also help figure this out.

FEDERAL SELF-EMPLOYMENT (SE) TAXES

Same as Federal Quarterly Taxes if you received a salary that quarter. The form has a little worksheet that you plug in the amount of salary and do some math.

STATE INCOME TAXES

You may only need to file after the year's end (by the April 15 federal deadline). Check with your accountant.

STATE WORKERS COMPENSATION

First, see if the waiver applies to you. It's quite inexpensive and lasts a few years and then you don't have to file anything. If you do, they will tell you how and when.

STATE UNEMPLOYMENT INSURANCE

File within thirty (30) days of the end of each quarter. Since the federal taxes are 15 days of the end of each quarter, just do these at the same time and you're good. Depending on your employees and how you pay them, you may not need to contribute to the unemployment fund. Check with your state office.

So, really, as long as you remember to do your taxes each quarter (just four times a year) you should be on top of things. You can get most forms at the IRS and State websites. With many taxing entities, once you're in the system, they will send forms and even email reminders. If you still worry about forgetting, you can always pay your accountant to do it.

Finally, remember to run all this by your accountant.

HAPPY INVESTING

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