

# Don't Be Left Out In The Cold This Tax Season

## Preparing For Your 2004 Taxes

By Phyllis Wischer

Last December, Doug hiked out into the mountains of Colorado and locked himself in a cabin for three days. It was his annual trip to the cabin; he would spend hour after hour sorting through piles and piles of receipts, checks, bank statements and hand written mileage logs. Doug was preparing his business records for his 2003 tax return.

It may sound dramatic, but Doug knows just how advantageous the US tax laws have made it to own his own home-based business. Because of the significant tax benefits, he saves thousands of dollars each year by reducing the amount he pays in taxes. If you too want to take full advantage of these tax benefits for 2004, you must do three critical things:

1. Run your business with an honest expectation of profit and be sure that your expenses are ordinary, necessary, reasonable and directly related to your business
2. Accurately record and document all of your income, expenses and automobile mileage
3. Do your tax planning in 2004

Most of us, however, are not willing to hike out into the wilderness to prepare for taxes – there has to be an easier way! And there is!

What follows are 3 simple steps you can take to increase your profits by thousands of dollars this year:

### Step I: build a foundation of smart money management

The key to success for any business owner is money management. Simply put, the better you are at accurately and efficiently tracking all of its expenses, the less tax your business will pay each year.

To build your business foundation, you need to choose a method for keeping track of all the income and expense your business incurs. Think of it as a workout routine for your business and the goal is financial fitness and health. Create a simple, efficient and effective way to organize the funds going in to and out of your business.

In the past, business owners might have organized their receipts manually and used general ledger worksheets to sort business activity. Some business owners outsourced the paper sorting to their accountants at the end of the year. However, these methods are simply too time consuming and costly to be considered a smart method today.

Today's business owners use computer applications to maximize their time. They have turned a dreaded paperwork task into a simple and natural part of managing their business.

**The "secret" to Step I:** Purchase a business bookkeeping solution and use it. Daily or weekly entries into the system will only take a few minutes. The benefits? You will save thousands of dollars at the end of the year and you will always know just where your business is financially.



### **Biz Tip**

Pick a solution that is right for your business; features to look for:

- Consider only easy to use programs that will give you the record keeping functionality you need without the complexity of an accounting program. Be sure to pick a program that will make it easy for you to record your auto mileage – this is one of the greatest deductible expense (and most often underused) offered to your business
- Consider a solution that will assist you with good customer support and training (be wary of companies that want you to pay extra just for support)
- Pick a solution that provides a money-back guarantee – the best products put their money where their mouth is
- To save time, consider a solution that will allow you to import transactions from your bank and credit card companies
- Consider solutions that offer bank and credit card reconciliations, so you can be sure you don't miss any of your deductible expenses
- Your solution should securely back up your data in case your laptop or desktop crashes
- Consider a solution that includes annual tax code updates

### **Action Needed – Complete Step I**

Build your business foundation: Sign up for a bookkeeping system and begin entering your income, expenses, and automobile mileage consistently.

### **Where to go from here?**

Use online resources to find the right bookkeeping program. I recommend an online bookkeeping solution. There is a great deal of information available through the popular search engines ([www.google.com](http://www.google.com), [www.msn.com](http://www.msn.com), [www.yahoo.com](http://www.yahoo.com)). You will find a host of possible solutions and information about different programs. If necessary, contact the company for each of the programs that you are considering.

## **Step II: meet with your tax advisor**

Make an appointment for this December with your tax advisor to do year-end tax planning.

No matter what size business you have, tax planning is a vital strategy to achieve and maintain profitability. Being a small business owner is a daunting task. Add taking care of tax matters and sometimes it becomes overwhelming if left to the last minute. The important thing to remember as a business owner is that your priority is building a successful business – without success you have no business – knowing your financial and tax matters is the key component to securing that success.

A common mistake is to wait until February, 2005 to start tax planning. The problem? You can't change 2004 activity in 2005. The time to do tax planning for 2004 is in 2004! Waiting until your tax appointment in early 2005 will be **too late!**



### **Biz Tip**

By tax planning in 2004 for 2004, you may be to take advantage of the following:

- Postpone taking income if your estimated income will move you into a higher tax bracket
- Postpone paying expenses if your estimated income will not allow you to take full advantage of certain tax credits
- Take maximum advantage of the Section 179 deduction, which allows you to expense the cost of business property in the year of purchase rather than depreciate it. According to the 2003 Tax Act, the new maximum allowable amount was increased to \$100,000; and, unless the law is extended, it will expire December 31, 2005

By making an appointment today, you have set a deadline to get your business records organized. You cannot do tax planning if you do not know 'your bottom line'. And, it does not matter if you prepare your own taxes or if you use a tax professional – do that tax planning this year!

## Action Needed – Complete Step 2

Call your tax advisor and setup your December appointment today. If you do not have an advisor, find one.

### Where to go from here?

If you need a new tax advisor, ask your trusted business associates who they use. You can also leverage online accountant directories to find a tax advisor near you ([www.BookkeepingHelp.com](http://www.BookkeepingHelp.com), [www.natptac.com](http://www.natptac.com), [www.nstp.org](http://www.nstp.org), [www.cpaia.com](http://www.cpaia.com)).



#### Biz Tip

First and foremost, you need to feel very at ease talking to your tax advisor. You will be sharing very confidential information with them and should be very comfortable talking to them about both personal and business matters. If you feel at all intimidated by your tax advisor, seek another one. Questions to ask your potential advisor:

- How long have you been in business and how much experience do you have in preparing my type of tax return? (Listen to how they respond more than the answer itself)
- Do you carry any type of credentials that require continuing education to maintain these credentials? (Having credentials shows a commitment to consistently upgrading their knowledge)
- Are you available all year round? (Tax filing deadlines are important, but being available to answer any questions you or the IRS may have after April 15<sup>th</sup> is just as critical)
- Can I have three referrals? (Referrals from family and friends are important, but get outside referrals too)

## Step III: organize your business records

You do not need to hike into the wilderness to get organized, but without some of your energy here, you will be left out in the cold. The key is to work smart. Here is a simple way to get started:

- Begin with an accordion type file that you can get from any office supply store. By month, sort and file your **business** receipts, bank statements, credit card statements, automobile mileage and any other activity
- Review your **personal** checking accounts and credit card statements for any business expenses paid through these personal accounts
- Look for any business expenses paid by **cash** from your personal funds
- Verify that you have the appropriate number of bank statements, credit card statements, etc. for each month. Obtain copies from the appropriate provider for any missing paperwork
- With the accordion file in hand you are now ready to go to work. If you followed Step I, you have a bookkeeping solution ready to use



#### Biz Tip

Don't try to accomplish an entire year of organizing in one sitting. Set small goals and reward yourself after reaching each goal. For example, organize January, 2004. Even if it only takes you 10 minutes to enter and record all of your business activity, take a break and do something enjoyable. You will quickly find that organizing can be very rewarding and give you a peace of mind that your business is financially ready for tax season. Best of all, by fully recording all of your business expenses, you may put a few extra thousand dollars in your bank account this year.

With your records organized and up to date, here are a few suggestions to be sure that you have recorded all your allowable business income and expenses:

- Post all 2004 business activity to a current date. Develop a schedule to routinely (every day or two) continue to post your daily business activity
- Review your day-planner and appointment book to be sure you have not missed any business deductions or mileage related to travel and entertainment
- Review each income and expense category and do a gut check - feel comfortable that you have recorded all income and expenses. Ask yourself, "Am I reaching my income goals?" and "Have I spent too much money in this category – does it really help me generate more income?"

- Look at the 'bottom line'. Are you surprised with the amount of income (or loss)?

The dictionary defines **successful** as 'having achieved or gained much, especially wealth, fame, or power'. We have all heard of Bill Gates, Warren Buffett and Oprah Winfrey; all people who have gone out and made their fortune doing what they like to do. Like you, they started their own business to become successful. Like you, they had a choice - to succeed or to fail.



### **Biz Tip**

In business, success comes from hard work, perseverance and timing.

- **Set goals and achieve:** create your list of goals, both short term goals (one month to one year away) and long term goals (five years away). Print and frame your goals and display them for everyone to see
- **Develop a routine and stick to it:** record your business activity daily to increase your profits and decrease taxes
- **Work smart:** create an organized system; don't waste time looking for lost papers that could have been properly recorded and filed. Your time is valuable - use it wisely
- **Work efficiently:** with a computer and the right program, you can get done in minutes what would otherwise would take you days to do manually. If you are not computer literate, it is worth the personal investment to get there - take a class and learn

*Phyllis Wischer, Business Coach, [www.myShoeboxRecords.com](http://www.myShoeboxRecords.com) – Ms. Wischer is a Public Accountant, an Accredited Business Accountant, an Accredited Tax Preparer and has been helping business owners with their bookkeeping, accounting and tax needs for over 18 years. Ms. Wischer is the head Business Coach at SageFire, Inc. and offers coaching and business training across the United States. SageFire's flagship product, Shoebox Records, is an online bookkeeping tool for small business owners. SageFire's mission is to create success for every small business owner by providing simple tools, valued services and pertinent knowledge.*