M&Y INTERNATIONAL FINANCIAL SERVICES NEWSLETTER

M&Y International Financial Services
262 Livingston Avenue
New Brunswick, NJ 08901
Office: 732-875-0177
Fax: 732-626-6847
Email: info@myifs.net
www.myifs.net

SEVEN COMMON SMALL BUSINESS TAX MYTHS

The complexity of the tax code generates a lot of folklore and misinformation that could lead to costly mistakes such as penalties for failing to file on time or, on the flip side, not taking advantage of deductions you are legally entitled to take and giving the IRS more money than you need to. With this in mind, let's take a look at seven common small business tax myths.

“While the home office deduction used to be a red flag, this is no longer true. In fact, with so many people operating home-based businesses the IRS rolled out a new simplified home office deduction in 2013, which makes it even easier to claim the home office deduction [...]”

1. Start-Up Costs are Deductible Immediately

Business start-up costs refer to expenses incurred before you actually begin operating your business. Business start-up costs include both start-up and organizational costs and vary depending on the type of business. Examples of these types of costs include advertising, travel, surveys, and training. These start-up and organizational costs are generally called capital expenditures.

Costs for a particular asset such as machinery or office equipment are recovered through depreciation or Section 179 expensing. When you start a business, you can elect to deduct or amortize certain business start-up costs.

Business start-up and organizational costs are generally capital expenditures. However, you can elect to deduct up to $5,000 of business start-up and $5,000 of organizational costs. The $5,000 deduction is reduced (but not below zero) by the amount your total start-up or organizational costs exceed $50,000. Remaining costs must be amortized.

2. Overpaying the IRS makes you "Audit Proof"

It is never a good idea to knowingly or unknowingly overpay the IRS. You should only pay the amount of tax that you owe. The IRS doesn't care if you pay the right amount of taxes or overpay your taxes; however, they do care if you pay less than you owe and you can't substantiate your deductions with good recordkeeping. The best way to "Audit Proof" yourself is to properly document your expenses and make sure you are getting good advice from your tax accountant.

3. You can take more Deductions if your Business is Incorporated.

The good news is that self-employed individuals (sole proprietors and S Corps) qualify for many of the same deductions that incorporated businesses do. As such, becoming incorporated is often an unnecessary expense and burden that many small business owners don't need. For instance, start-ups can spend thousands of dollars in legal and accounting fees to set up a corporation, only to discover soon thereafter that they need to change their name or take the company in a different direction. Furthermore, plenty of small business owners who incorporate don't make money for the first few years and find themselves saddled with minimum corporate tax payments and no income.

4. The Home Office Deduction is a Red Flag for an Audit.

While the home office deduction used to be a red flag, this is no longer true. In fact, with so many people operating home-based businesses the IRS rolled out a new simplified home office deduction in 2013, which makes it even easier to claim the home office deduction (as long as it can be substantiated with excellent recordkeeping).

Furthermore, because of the proliferation of home offices, tax officials cannot possibly audit all tax returns of small business owners taking the home office deduction. In other words, there is no need to fear an audit just because you take the home office deduction; however, a high deduction-to-income ratio, however, may raise a red flag and lead to an audit.

5. You can't Deduct Business Expenses if you don't take the Home Office Deduction.

You are still eligible to take deductions for business supplies, business-related phone bills, travel expenses, printing, wages paid to employees or contract workers, depreciation of equipment used for your business, and other expenses related to running a home-based business, whether or not you take the home office deduction.

6. An Extension to File gives you an extra Six Months to Pay any Tax you Owe.

Extensions enable you to extend your filing date only. Penalties and interest begin accruing from the date your taxes are due.

7. Part-time Business Owners Cannot Set up Self-employed Pension Plans.

If you start a company while you have a salaried position complete with a 401K plan, you can still set up a SEP-IRA for your business and take the deduction.

If you have any questions about these and other tax myths, don't hesitate to call and speak to us at M&Y International Financial Services.

M&Y INTERNATIONAL
FINANCIAL SERVICES

The Value You Expect