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CPS in the News

Events this month

"Money Matters"

Saturday Mornings

9:00 am on

1430am WLKF

CPS First Thursdays:

Fitness over 50

FSC Campus

Carlisle Rogers

Building

Date: 8/5/2010

11:30 am—Lunch

Provided

Contact us for more information

Tax Tips for New Business Owners

Are you considering opening a new business this year? What are your primary concerns? For most entrepreneurs, the critical issues to consider are: Do I have enough capital to start the business? Where should I set up my office? Will my service or product sell? How do I register my business with the State? Once those critical decisions have been made, it is equally critical that the entity is set up in the owner's best interest for tax purposes as well as setting up a proper accounting system that will benefit the owner. Failure to do some initial tax planning with your CPA or Financial Advisor can end up being a very costly mistake down the road.

Here are some basic things to consider and discuss with your financial advisor BEFORE filing the paperwork:

First, you must decide what type of business entity you are going to establish. The type of business entity will determine which tax form you have to file. The most common types of business are the sole proprietorship, partnership, corporation and S corporation.

The type of business you operate determines what taxes you must pay and how you pay them. The four general types of business taxes are income tax, self-employment tax, employment tax and excise tax.

An Employer Identification Number is used to identify a business entity. Generally, businesses need an EIN. An attorney or CPA can assist in obtaining your Federal ID Number or you can also apply for an EIN online at IRS.gov.

Good records will help you ensure successful operation of your new business. Generally speaking, every business must have a separate bank account to operate from and some form of accounting system to account for all income and expenses. The type of business you are in will affect the type of records you need to keep for federal tax purposes.

Every business taxpayer must figure taxable income on an annual accounting period called a tax year. The calendar year and the fiscal year are the most common tax years used.

Each taxpayer must also use a consistent accounting method, which is a set of rules for determining when to report income and expenses. The most commonly used accounting methods are the cash method and an accrual method. Under the cash method, you generally report income in the tax year you receive it and deduct expenses in the tax year you pay them. Under an accrual method, you generally report income in the tax year you earn it and deduct expenses in the tax year you incur them.

Management Tip: According to the experts, 80% of small businesses fail in the first three years. The primary reason is a lack of capital!!!!

Starting a business is an exciting and stressful time for all entrepreneurs. Proper planning and due diligence will help ensure that the company you are starting is in the most favorable tax and accounting position. Having a CPA or Financial Advisor on your team from the start will help you spend your time and resources on what you do best and will help your business grow the top-line.

Source: [IRS 2010-05](#) and [Publication 583](#)