

Tennessee Society of CPAs
201 Powell Place
Brentwood, TN 37027
615/377-3825
www.tscpa.com

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CONTACT:

Jared Booth
Communications/Technology Associate
jbooth@tscpa.com

Tax Considerations (and Advantages) for Small Businesses

Are you thinking of launching your own business? Roughly 800,000 new businesses are opened each year, according to Bureau of Labor Statistics data. When these young companies get started, it's critical for their owners to understand the many rules and regulations that apply to them. The Tennessee Society of CPAs offers advice on three of the many questions you'll need to address.

What Form Should the Company Take?

Business structure choices can include sole proprietorship, partnership, corporation or a Limited Liability Company (LLC). The one you select will be based on many factors, including whether you will have employees or partners and the kinds of risks your business may face. Your choice will also have an impact on your tax situation. There are some relatively simple business structures that don't cost a lot to set up or maintain, such as a sole proprietorship or partnership. Even an LLC may incur low annual state fees. Corporations will generally involve higher costs related to required financial recordkeeping and other documentation. Tax reporting can be relatively straightforward for sole proprietorships, partnerships and LLCs, too, because owners can report their business income on their own personal returns, rather than on a business return. If you have questions on which structure is the best choice for you, be sure to contact your CPA.

What If I Work at Home?

If you run your business out of your home, or if you use a portion of it for business purposes, you may be able to take the home office deduction for expenses related to that section of your home. To be eligible, you must use part of your residence—which could mean some or all of a room or other area—exclusively for business on a regular basis. Double check with your CPA to see if you qualify. Of course, no matter where the business is located, you can deduct your company's expenses from your revenues. Some items can be deducted immediately on your current year return and others must be amortized, or taken over time. Be sure to ask your CPA for more information on deductions that apply to your business.

How Can I Save for My Future?

Retirement may be the last thing on your mind right now, but the tax laws actually offer numerous incentives to start building your nest egg sooner rather than later. There are several retirement plan options for small business owners that feature low start-up and maintenance costs and few paperwork burdens. The contribution limits in some cases are much higher than those for other IRAs or a corporate 401(k). With a Simplified Employee Pension IRA (SEP), for example, you can contribute up to 25 percent of your (or an employee's) compensation, up to a maximum of \$53,000. Another choice, SIMPLE (Savings Incentive Match Plan for Employees) IRAs, which are typically best suited to companies with 100 or fewer employees, may be a good option for companies that want to offer a retirement plan to their workers without facing high administrative costs. These and other available retirement plans offer owners and workers tax-advantaged savings options.

Your CPA Can Help

Starting a new business is an exciting prospect, but it's one that can seem daunting at times. You don't have to go it alone, however. Your local CPA has the experience and knowledge to provide business insights and answer your most pressing questions. Turn to him or her for valuable advice on all your financial concerns.

About Money Management

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy program. Members of TSCPA are CPAs residing and practicing primarily in Tennessee in all areas of public accounting, education, government, business and industry. TSCPA offers a speakers bureau for many types of business and educational engagements. For details, visit www.tscpa.com. TSCPA is headquartered in Brentwood, Tenn.