

HOW & WHY TO KEEP SMALL BUSINESS RECORDS

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REASONS WHY

- Financial information to manage your business
- Warranty records or insurance loss
- Tax Compliance; tax preparation easier
- Create efficiencies; find documents
- Future

TAX COMPLIANCE

- Identify source of all incoming funds
- Keep track of deductible expenses
- Prepare your tax return
- Support items reported on tax returns
- Keep records as long as needed to prove income/deductions on returns

TRAVEL EXPENSES

- Ordinary and Necessary
- Away from your business home for business
- Substantiate where you went, why, for how long and amount spent
- Keep a log of meals; receipt required if over \$75
- Entertainment: date, place, business relationship, purpose

WHAT RECORDS TO KEEP

- Cash register tapes
- Receipt book
- Sales Invoices
- Credit charge slips & credit card statements
- Bank deposit slips showing names
- Expense Invoices
- Bank records
- All supporting documents

MORE RECORDS TO KEEP

- General Ledger and Journals
- Service contracts, warranties, vehicle titles
- Purchase of “fixed” or “long-term” assets
- Travel, Entertainment, Gifts
- Employment Records
- Income Tax Records

HOW LONG TO KEEP

- 3 years from date you filed your tax return for that year; if there is a chance you underreported your income, must keep 6 years; fraud, forever
- Employment records, at least four years
- Source records (checks, receipts, & proof of business purpose), at least three years
- Until asset is sold or removed + 3 years
- Improvements to asset—until sold + 3 years

TAX COMPLIANCE

- Must be able to trace each number on tax return to back-up proof
- Your records must support claimed amount
- IRS does not prescribe how or in what format you keep your records (electronic, software, Excel, manual columnar journals)

BALANCE SHEET

- For tax returns that require a Balance Sheet (corporations and partnerships, with exceptions), must be able to show where those numbers came from—best to print a final, after-adjustments-made balance sheet that ties to tax return amounts
- Print list of accounts receivable and payable as of year end that ties to balance sheet
- Inventory sheet

RECORDKEEPING

- Must keep personal & business records separate
- Open business bank account
- Exact amount collected must be deposited
- Pay all business bills from business bank
- Capture all transactions in your records
- Keep a record of receivables & payables

RECORDKEEPING

- Use a separate credit card for business expenses
- Accounts receivable/payable invoices
- Fixed asset invoices
- How best to keep your files so you can produce receipts if IRS audit
- Excel spreadsheets
- QuickBooks

IRS PUBLICATIONS TO READ

- www.irs.gov
- Publication 15 *Employers Tax Guide*
- Publ 583 *Starting a Business & Keeping Records*
- Publ 334 *Tax Guide for Small Business*
- Publ 535 *Business Expenses*
- Publ 587 *Business Use of Your Home*
- Publ 1779 *Independent Contractor or Employee*

QUESTIONS?

Go to the SCORE website to request free and confidential mentoring with a SCORE volunteer: www.scorecr.org

Also click on “View Event Calendar” on our website to see all upcoming workshops

Monday, March 26, at Kaplan University from 5:30 to 7 pm for Basic QuickBooks workshop; free

Vehicle used in Business

- Corporate owned vehicles: must use ACTUAL expenses, cannot use mileage method.
- Personal use portion is NEVER deductible; corporation must add the value of your personal use of corporate vehicle to your W-2 as income to you. IRS has a formula for that.
- Personally owned vehicle used for corporate business: one way to handle it is for the corporation to pay the vehicle owner the current IRS allowed cents per mile for the business usage
- Must keep a Log on all mixed use vehicles to verify usage. Need odometer reading at beginning of year & end of year

Vehicle used in Business

- Business that are not corporations have option of using the “actual method” or the mileage method to compute tax return deduction.
- Actual Method requires vehicle be on depreciation schedule. All actual expenses are computed: insurance, gas, oil, repairs, tires, license, maintenance, depreciation. Then business % x actual expenses deduct.
- Mileage method still need total miles and business miles, but then deduct business miles x current IRS rate (53.5 cents in 2017; 54.5 cents in 2018)
- Total business miles driven, say 1,000, divided by total mileage for year, say 10,000 = 10%

Vehicle used in Business

- In addition to both the actual method and mileage method, you can deduct the computed percentage x interest you paid on the vehicle.
- Remember, you must keep a log showing your business miles for ALL methods.
- CanNOT go back and forth between methods: must stick with same unless or until you use a different vehicle for business.
- Non corporate businesses canNOT use the mileage method if they use more than 4 vehicles in their business; they must use actual expenses.

Office in Home

- Must be a room that is used exclusively and on a regular basis for business purposes.
- Measure the square footage of your entire usable home. [assume 3,000 sq ft]
- Measure the square footage of the room used exclusively for business. [assume 300 sq ft]
- Divide 300 by 3,000 = 10% for business use
- Total actual expenses; records maintained

Office in Home

- Any expense that is for ONLY that room, can be deducted in full—like painting or decorating for that room only. Those expenses should be shown on Schedule C but NOT as an “office in home” expense.
- Regular method (required prior to 2013)
- Simplified Optional method—new for 2013 and later years

Regular Method

- Use Form 8829 to record all expenses; the allowable expenses goes from that form to Schedule C.
- The % of usage (10%) x property tax & mortgage interest will be deducted on this form; the personal % (90%) deducted on Schedule A (itemized).
- Other expenses (insurance, rent, repairs, utilities, depreciation, etc.—10% applied
- Recapture of depreciation on sale of home
- Cannot show a loss because of this expense but loss can be carried forward.

New Simplified Method

- Compute on Schedule C—do not use 8829
- Maximum allowable sq ft for business= 300
- Sq ft for business x \$5 is deductible amount:
 $\$5 \times 300 \text{ sq ft (max)} = \$1,500$
- You can use full amount of property tax and interest on Schedule A
- No depreciation deduction; no recapture
- Cannot show a loss because of this expense & loss cannot be carried forward