



White Paper

Tax Best Practices for Small Businesses

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## Tax Best Practices for Small Businesses

1. Hire a good CPA to take care of your books. Bookkeepers or Enrolled Agents (people who pass an IRS tax exam) may be less expensive, but:
  1. They may not have professional liability insurance to cover you in the event they make a mistake. CPA's are both personally liable for errors and must carry professional liability insurance
  2. They may not be current with tax law. CPA's are required to take 40 hours of Continuing Professional Education annually to maintain their license.
  3. CPA's must pass a three day comprehensive examination to demonstrate their competency and knowledge level.
2. Keep good records about who is an "employee" and who is an "independent contractor." Make sure all contractors meet the IRS test. Ask your CPA.
3. Require all Employees to complete both IRS Form W-9 as well as ICE Form I-9 BEFORE they are hired.
4. Require all contractors to complete IRS form W-9 BEFORE paying their invoice. You may be left with a non-deductible expense otherwise.
5. Talk to your CPA about the rules relating to Sales Tax for your business. Fully document every location in which your company has a "physical presence." Meet with your CPA to ensure you comply with every state's rules governing sales tax collection.
6. Make sure you or your CPA invests in good tax software accounting systems - those that track your records and regularly provide updates to new IRS rules.
7. Confirm that your CPA has experience in your type of business; whether it's a restaurant or a manufacturing business (see #13 and #17).
8. Keep original invoices and other sound records that prove how much you paid for, and the date you placed in service, all business equipment, business vehicles, office furniture, computers and tools that will serve the business for more than one year. Provide copies of these to your CPA.
9. NEVER consider using funds you have withheld for employee payroll taxes (or any taxes, for that matter) as a short-term loan to tide you over during a shortfall in working capital (see #19). This is viewed as stealing from your employees and can cost you your business, house and a possible jail sentence.
10. Work with your CPA about calculating and paying your estimated taxes. It is one of the biggest traps for small business taxpayers. Be sure that you pay

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them on time, calculate them correctly, and investigate the safe harbors that can protect you against underpayments. Failure to do so can cost you dearly, so work with your CPA who knows the rules cold.

11. If a member of your family or other close relative works in your business, make sure they abide by the same employment rules as your unrelated employees.
12. Select a "tax year" for your business that reflects the natural ebb and flow of your business's receipts and disbursements. This way, you won't get caught in a cash crunch when tax time comes.
13. You (or your CPA) should retain all relevant tax records for at least seven (7) years, and if your records relate to property and depreciation, keep them until the property is disposed of, plus an additional three years. IRS regulations.
14. Maintain a mileage log for all business vehicles. You MUST be able to provide written proof of business mileage, including odometer readings. Keep detailed records on how you use your personal or business-owned vehicle for business vs. personal purposes. Talk to your CPA about how to maintain these records.
15. Hire a reputable third-party administrator to manage your 401(k) plan and other tax-favored employee benefits. Consider incorporating insurance products as part of the plan to provide a greater tax haven.
16. Make sure that you (and your CPA) are familiar with the tax rules, including the favorable tax credits and deductions that are unique to your business.
17. If it becomes necessary for your small business to open a foreign bank account in order to pay vendors or others in another country, make sure you (and your CPA) are vigilant in following the new rules on foreign bank accounts, known by the acronym FATCA.
18. If your hope is that your business will continue after you die, under the leadership of another family member or designated heir, work with your CPA and a reputable insurance agent and take steps to secure "Key Man" insurance and to protect the business against a forced sale in order to pay inheritance taxes.
19. Don't become foolishly emboldened by thinking that the IRS will have to "prove" that you have done something that doesn't comport with the tax law - the burden of proof is always on you, not the IRS.
20. Become familiar with the tax rules surrounding starting, running, selling, and shutting down a business. Determine whether you should operate as a partnership, an S corporation, an LLC, or a sole proprietorship. CPA should be closely familiar with these rules. If not, find another CPA.
21. Have a one-on-one conversation with your CPA about the Affordable Care Act.
22. If you can't pay the taxes you owe to the IRS, or another tax agency, contact your CPA right away. This situation won't get better by ignoring it.
23. When someone pays you in cash, it doesn't mean that payment is nontaxable. The IRS has state-of-the-art statistical technology and models based on spending habits and bank accounts to build a case against alleged tax cheats.