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PRODUCT & SERVICE GUIDE

10 Big Tax and Accounting Issues for Small Businesses

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Ken Berry • Aug. 23, 2017

Entrepreneurs usually aren't surprised by the amount of work it takes to get a business up and-running and become successful. But these same small business owners are often blindsided by the time and effort required for tax and accounting issues. It's an important aspect that is often overlooked.

Specifically, the following ten issues are critical to small business owners and might even "make or break" the operation.

1. Form of business: The business may be formed as a C corporation, a pass-through entity like an S Corporation, limited liability company (LLC) or partnership, or a sole proprietorship. Generally, C corps provide greater protection from creditors, but result in "double taxation" on earnings.

2. Estimated taxes: As with individual taxpayers, businesses must take a "pay-as-you-go" approach with tax liability, reporting and paying taxes on a quarterly basis. This applies regardless of the form of business ownership.

3. Ordinary and necessary expenses: The tax law provides current deductions for numerous “ordinary and necessary” business expenses ranging from paper clips to office furniture. But the law is also riddled with numerous special rules and requirements.

4. Independent contractors: Employers must pay payroll taxes on employee wages, but not on amounts paid to independent contractors, such as most outside workers hired for specified projects. The IRS often contests the employment status of workers.

5. Inventory valuation: The company must value the items included in its inventory. Initially, the value is the cost, but these figures are being constantly updated as items get sold and restocked, with accompanying tax results.

6. Section 179/ depreciation: Under Section 179 of the tax code, a company can claim a generous current deduction for the cost of business assets. Alternatively, assets are “depreciated” over time according to specified schedules and rules.

7. Cash flow: Too much money going out, and not enough coming in, can sink a small business. It’s important to regularly monitor accounts receivable and payable to provide a clear picture.

8. Bad debts: Even a profitable business may have difficulty collecting amounts it is owed. Take steps to bolster collections and keep records to prove “worthlessness” of debts for tax purposes.

9. Payroll: Handling payroll, including issuing proper forms and imposing withholding, can prove to be a real headache. To reduce the stress, a small business may utilize outside resources.

10. Recordkeeping: As you can see from the above, good recordkeeping goes hand-in-hand with minimizing problems and maximizing the available tax benefits. It is essential at virtually every twist and turn.

Finally, a wealth of information on accounting and tax matters involving small businesses can be found at a multitude of online sites, including www.irs.gov and www.aicpa.org. Leave no stone unturned in your search to assist clients.

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