

So you're self-employed

Congratulations! You're entering into a challenging and rewarding time. And a busy one, too, because you have lots of things to do and probably only yourself to do them. With this set of checklists, we'd like to help. It's a list of the most common challenges for people in business for themselves.

Training

For starters, we suggest you sign up for John Purtill's *Business Startup Boot Camp*, which is held in the Middletown and Cheshire adult education programs during each spring and fall. Contact the centers for specifics. Cheshire: 203-250-2421. Middletown: 860-343-6044. This is a series of four two-hour sessions covering most aspects of startup.

If you can't wait for the boot camp, purchase the text book, *Starting a Small Business in Connecticut*, available from Community Accounting Aid at 860-570-9113 or online at www.purtill.com.

Highlights

Here are some answers to common questions.

Income taxes. This topic can get complicated and you should see a CPA for guidance that applies to your situation.

What's taxable? You'll pay tax on the income of your business after subtracting business expenses, which includes the cost of operating a home office if you work out of your home. See our home office checklist further on.

How much tax? Besides the normal federal and state income tax, which ranges from 15% up to 28%, you must also pay a self-employment tax of 15.3%, which is your Social Security contribution. As an employee, you used to split this cost with your employer. As a self-employed person, you now pay the entire amount yourself.

How to pay? Because you probably don't have taxes withheld from your self-employment earnings, you must pay it in yourself. You do this by sending quarterly payments of your estimated tax bill on April 15th, June 15th, September 15th and January 15th.

Sales taxes. You may have to collect sales tax from your customers and forward it to the state. If you don't, you're personally responsible for the tax due. If you make purchases, such as out-of-state mail order purchases, where the merchant doesn't charge sales tax, you may have to pay the state a *use tax*. See your CPA or this Web site for more information: www.ct.gov/drs/site/

Other taxes. If you own business property, such as computers, you must pay property tax to your town. This amounts to about 2% of the equipment's value. In most towns, you declare your business property in October and pay tax on it the following July.

Money. How much do you need? More than you think. Start with our enclosed checklist.

Records. See the enclosed checklist of records. Better yet, purchase a copy of the computer program QuickBooks (under \$100 at Costco). Enter your check payments and customer

collections into it and it'll provide a profit and loss statement that you can use to track your business progress.

Start-up budget worksheet for a service business		
	Our Example	Your Budget
One-time "capital" costs:		
Office furnishings	3,000	
Computer, printer and basic software	4,000	
Copier	1,200	
Fax	500	
Legal and accounting	2,500	
Deposits for rent and utilities	2,000	
Telephones and lines	500	
Office supplies	500	
Vehicle		
Office remodeling		
Operating expenses for 6 to 12 months:		
Advertising	500	
Automobile	2,000	
Benefits (medical insurance for owner only)	3,000	
Communications	1,200	
Entertainment	500	
Insurance	200	
Interest		
Payroll (owner and part-time secretary)	25,000	
Postage	300	
Professional fees	1,000	
Rent (small office)	1,200	
Repairs	100	
Supplies	300	
Taxes (payroll and property)	3,500	
Travel		
Utilities (included in rent)		
Inventory	n/a	
Receivables	5,000	
Personal living expenses for six to twelve months:		
Rent or mortgage, food and clothing, education, medical expenses. These costs depend on family size, lifestyle, home ownership, spouse employment, age and many other factors. We can't provide an example that would fit all situations.		
Emergency fund for unexpected expenses	10,000	
Total (amount shown here is the minimum)	68,000	

Checklist of business records to keep
And who should probably keep them

Task	Company Note 1	Bookkeeping service	CPA Note 2
Check book	X		
Inventory records	X		
Vendor accounts payable	X		
Customer accounts receivable	X	Note 3	
Annual Secretary of State report	X		
Property listings	X		
Property tax reports	X		Note 4
Property depreciation records			X
Insurance list/annual review	X		Note 4
Insurance certificate (contractor)	X		
Employee personnel files	X		
Customers' sales tax exemptions	X		
Sales and use tax returns		X	
Bank reconciliation		X	
Summarizing receipts/disbursements		X	
Prepare payroll		X	
Payroll tax returns		X	
W-2/W-3 and 1099/1096 forms		X	
Income tax returns			X
Financial statements			X
Estimated income tax returns			X
Pension plan tax returns			X
Annual corporate minutes	Note 5		

Notes:

1. This list is for general guidance. It should be used with professional assistance. Also, be alert for opportunities to assign tasks to a part-time "inside" bookkeeper.
2. Many CPA firms also offer bookkeeping services that are competitively priced.
3. Service bureau billing is feasible in some situations.
4. Consult with CPA for advice.
5. Corporate attorney should do an annual update in order to keep the corporation in effect.

Checklist of home office deductions

IRS rules and court cases have somewhat limited the write-offs you can take for an office in your home. You *CAN* write off a home office if you use it as your **principal** place of business - even if the business is a sideline. If you have a part-time business or manage many rental properties from your home, you can also take the write-off.

There is one important qualification. *The office space (which doesn't have to be a full room) must be used exclusively for business. No personal use is allowed.* If you qualify, you can write off the office's share of household expenses. The IRS figures the business/personal split on the space the business occupies. Besides the office, you should count the space you use to store business equipment, supplies and vehicles. Use this checklist to be sure you've covered everything:

Split these expenses between business and personal use:

- Cleaning & maintenance supplies
- Condo fees
- Driveway maintenance
- Electricity
- Furnace maintenance
- Gas or oil for heating
- Homeowners' and renters' insurance
- Lawn and tree care, in most cases
- Cleaning service
- Mortgage interest
- Property taxes
- Rent
- Repairs
- Roof maintenance
- Sewer usage fees
- Snow removal
- Trash removal
- Water

Charge 100% of these expenses to the business:

- Answering service
- Business insurance
- Internet access fees
- Office furniture
- Office supplies
- Telephone basic charge for any phone used exclusively for business
- Telephone toll calls

You can't write off any of these expenses:

- Cable TV fees
- Permanent home improvements (except for business use)
- Swimming pool maintenance
- Telephone basic charge, if you use the same phone for business and personal use