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Accounting & Auditing
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We are Dedicated
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HELPFUL HINTS - GETTING YOUR SMALL BUSINESS STARTED

When starting up a business there are many things that need to be done and this information is designed to give you some insight to work through the formation, registration with the tax authorities and recordkeeping related items for a business.

Formation: There are several business types available and most provide some legal protection for the business owner. The following are two business types and formation instructions that work well for small businesses:

- **Limited Liability Company (i.e. LLC)** – this business type provides some legal protections to the business owner and is fairly easy to form. To register/form an LLC visit this website <https://www.wdfr.org/apps/CorpFormation/directions.aspx?type=12>, complete the information and pay a \$130 registration fee. Additionally, all business types should contact their local municipality to make sure there is no license or permits necessary.
- **Sole Proprietor** – this business type has no legal protections for the owner of the business; however, has no formation requirements other than obtaining any local licenses or permits.

Registration with various tax authorities: After the formation process, the next step is to obtain a

- 1) **Federal identification number** (also referred to as FEIN). This can be completed on-line by visiting the following website: <https://sa1.www4.irs.gov/modiein/individual/index.jsp>. Once completed with the on-line process the IRS will automatically issue a FEIN.
- 2) Depending on your business a Business Number from the State of Wisconsin may need to be applied for, which may also be obtained on-line using the following website: <https://tap.revenue.wi.gov/#1>. The registration with the State of Wisconsin is only required for a business that will have employees and/or required to file sale tax returns.
- 3) You might also need to set up “My Tax Account” with the state of Wisconsin to file and pay various state business tax returns. To register please visit [My Tax Account Registration Quick Start - Wisconsin Department of Revenue](#)
- 4) In the event a business will have employees, that business will also be required to registration with the Wisconsin Department of Workforce Development (also known as the Unemployment Compensation Division). This form cannot be completed on-line so this document will need to be mailed (request this form from an accountant).

If any of the registrations identified above cannot be completed on-line, mail-in or telephone options exist to complete these registrations.

Recordkeeping guidance: Gathering and keeping business records is not always easy, for that reason we are sharing the following helpful hints:

- All expenses the business pays for should be deducted. Attached is a list of possible business expenses. Information such as cancelled check, purchase receipts, invoices or other notations should be kept in a separate envelope/folder and totaled up at a minimum annually. Additionally, maintaining a current checkbook of all banking activity will be very helpful.
- If the owner transfers equipment into the business the owner should write down what was transferred and the original cost of the equipment (estimate if necessary).
- Income received should be recorded in a separate book and checkbook as the income is deposited in the bank.
- Keep track of income that people owe the business. Although, this income is not taxable until the cash is received the business does not want to lose track of those amounts. We recommend keeping a separate list of those items and crossing them off once they have been paid.
- If the owner of the business puts money into the business bank account make sure that the checkbook shows that deposit and indicate that deposit was an “Owner Contribution”. If the owner of the business takes money out of the business bank account the checkbook should show a notation of “Owner Distribution”.

BUSINESS EXPENSE EXAMPLES

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- **Advertising and marketing expenses**
- **Commissions or fees**
- **Computer costs** - The cost of a computer used for business is deductible
- **Contract labor** - Subcontractors or independent contractors
- **Car and truck expenses**
 - \$.510 per business mile January 1 through June 30, 2011 with an increase to \$.555 July 1, through December 31, 2011
 - Actual expenses—using % of business use and including all expenses
- **Home office** - If you have in-home day care or use space in your home "exclusively and regularly" for business, you may be able to deduct a portion of all the costs of your home, including utilities, insurance and general upkeep.
- **Interest expense** on loans used to finance your business or buy equipment
- **Insurance** - Premiums paid by and for the business. E.g.
 - Fire, storm, theft, accident, or similar losses
 - Health insurance for yourself and employees
 - Malpractice and liability insurance
 - Worker's compensation insurance
 - Credit insurance that covers losses from business bad debts
- **Legal, accounting and professional services**
- **Office expenses** - Supplies, postage and other items used in the business
- **Retirement/401(k) plans**
- **Rent** - Includes equipment and office space
- **Repairs and maintenance** to business property
- **Taxes and licenses**
 - Payroll/employment taxes
 - Real estate and personal property taxes
 - State and local income and sales taxes
 - Licenses needed for your business
- **Travel, meals and entertainment expenses** - Expenses for lodging and transportation connected with travel for business is 100% deductible. Also, 50% of meals and entertainment expenses that are directly related to your business are deductible. You should keep records to prove the time, place and business purpose of these expenses.
- **Business association dues** - Membership dues in business organizations and meeting expenses for these organizations.
- **Education to improve business skills** - the cost of education that maintains or improves a skill required in your business.
- **Online computer services** - the costs of internet access are fully deductible if used only for business. The costs of setting up a business website are also deductible.
- **Business related magazines and books** - subscriptions to magazines, newsletters, newspapers and all other business publications.
- **Business gifts** - business gifts are deductible to the extent they do not exceed \$25 per recipient annually.
- **Parking and meters** - Parking is deductible even if you use the standard mileage rate. Unfortunately the beloved parking tickets are not considered a deductible business expense.
- **Supplies** - Materials, samples and tools used for your business
- **Utilities** - Gas, Electric, Water, Sewer, Telephone (mobile or land line)
- **Temporary help** - These costs are deductible provided the recipient reports the income. Make sure you issue a Form 1099 to anyone you pay \$600 or more in any year.

The IRS defines deductible business expenses as "business expenses that are both **ordinary** and **necessary**. An ordinary expense is one that is common and accepted in your industry. A necessary expense is one that is helpful and appropriate for your trade or business". Therefore, anything you do that relates to your work, improves and enhances your business and professional creativity or skills, or increases your chances of making a sale is a deductible business expense.