Convert your start-up costs into deductions in 2016

Economics, Tax

This article is part of the from tax and legal expert Mark J. Kohler.

You might be surprised that " start-up costs" makes my Top Ten Year-End Tax Strategies list. I have two reasons why:

1. Many businesses take " capital," i. e. money, to start! In fact, small-business owners often don't realize the costs they are expending with personal or services that could directly relate to the start-up of their business. It's critical that business owners capture these expenses, but many don't.
2. Too many business owners don't track their start-up expenses with accuracy! They lose them and they're " left on the table," never to be deducted. These could be a big benefit to a business owner during start-up, but because of a lack of attention and organization, they're often lost.

Here are just a few of the costs that could relate to the business you are contemplating starting or may have already started:

- Computers, laptops, monitors, printers andtechnology
- Office supplies, furniture, cameras and the home office
- Internet, telephone, software and website design
- Product research and development, prototypes and testing
- Education, training, tax, legal and consulting support

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This is just to name a few. In the first year of business, you can write off up to $5, 000 in start-up costs immediately. The rest can be amortized over time, and then any remaining amount can be deducted in full if you close down your business.

When do I get to deduct my start-up costs?

It may shock you to learn that your start-up costs have to be carried forward until you are " in business" as defined by the IRS. As such, you actually may not be able to deduct your start-up costs in 2016.

The trick: In order to be in business, according to the IRS, you need to have sales. You don't have to show a profit, you simply need to have revenue.

For example, think of a lemonade stand. All of those costs of ice, cups, mix, sugar, your sign and table are a tax deduction, but not until you sell at least one cup of lemonade. Until you have a sale, you are in " start-up" mode.

Now, as a cautionary note: Some business owners get greedy and, with only a relatively small amount of sales, want to write off a significant amount of expenses. Now, I'm not saying that you don't take the write-offs and, as I said above, create at least *some* sales so you trigger the beginning of the business. However, make sure you consult with your CPA regarding a balance between the amount of income and expenses. Don't get too aggressive and trigger an audit with the IRS in the process.

> *YEAR END TIP: Make any sales you can between now and year-end to simply launch your business so that your start-up costs are deductible in 2016.*

Now, bookkeeping is the next logical step in the process, and it's important to an entrepreneur in any stage of his or her business. However, to maximize your write-offs in 2016, the sooner you start, the less chance you have of losing or forgetting about an expense. Bookkeeping should start immediately when you even think of starting a business!

Why you can't afford to be bad at bookkeeping:

Maintaining your books isn't something you should do solely as a tax savings strategy or to track start-up costs. It also can help you in an audit, as well as prevent you from losing your sanity or from getting dragged into a potential lawsuit over commingling your funds. Here are five significant reasons for maintaining a separate checkbook and set of books for each of your businesses:

1. Corporate veil. Maintaining a separate checkbook substantiates the corporate veil, one of the primary reasons for forming a new corporation. Having a separate checkbook shows that you recognize

the company is its own distinct entity. Furthermore, separate checkbooks should encourage you not to commingle personal and business funds.

2. Tax savings. Separate banking will improve bookkeeping procedures, prevent you from missing payments and provide better records to improve your tax return.
3. Audit protection. Having a separate checkbook will improve your chances in an IRS audit. The IRS will often disallow a number of expenses when personal and business expenses are commingled in a single checkbook.
4. Lessstressand more sanity. When your books are disorganized, you’ll feel constant stress to take care of it, and this ultimately can cause you to feel undone. Having separate checking and bookkeeping for a new company will save you time and money in the long run.
5. Improved decision making. Having a separate checkbook starts the process of better bookkeeping, expense tracking and budgeting, which leads to quality decision making. How can you expect to be a successful business owner without accurate records?

As soon as business and transactions start to grow, you’ll need to start using QuickBooks. A software system such as QuickBooks is critical to having a good set of books and making your life simpler in the process.

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At the very least, start tracking expenses and gather any start-up costs on a spreadsheet. Track cash, credit cards, debit cards and even previously purchased items donated to the business. It’s important, and every expense matters. Remember, " a penny saved is a penny earned."

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